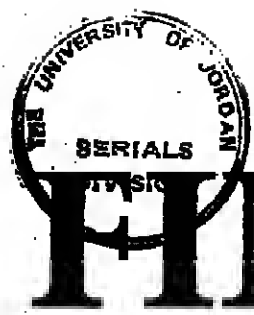


1991 high

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evolution



EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

ETHIOPIA

Addis Ababa awaits the violent night

Page 4

FT No. 31461

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Friday May 24 1991

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World News Business Summary

Relief that France will not revive intervention

France's industrial competitors are relieved at evidence that the new French government will not revive industrial intervention, despite the shift to the left marked by the arrival of Mrs Edith Cresson as prime minister. Page 18

Right wins election

South Africa's right-wing Conservative Party won a by-election victory in Orange Free State in what political analysts described as a sign of bloody confrontation to come. Page 4

Poll against whaling

Most people in Japan, a leading whaling nation, favour an end to the slaughter of the mammals, according to an opinion poll by Nippon Gallup.

General killed

Gunmen killed a retired Turkish army general in Ankara and wounded another and his driver in the southern city of Adana in the latest of dozens of political attacks.

Soviet no more

The republic of Moldova has dropped the words Soviet and Socialist from its name to show its growing independence. Border posts blaze. Page 3

Friendship plea

Argentina's ambassador in Britain called for restoration of links between his country and the Falklands which were cut after the 1982 war.

Abortion ban upheld

The US Supreme Court upheld by five votes to four regulations that bar federally-funded clinics from giving patients abortion advice, a victory for abortion opponents.

Rabbi blames Israel

Britain's Chief Rabbi Immanuel Jakobovits attacked Israel for "lording it" over the Palestinians, saying their legitimate aspirations could not be denied for ever.

Envoy recalled

The Ethiopian Embassy in Zimbabwe said Ambassador Asrat Woldeyes, who met ousted president Robert Mugabe, had been recalled to Addis Ababa. Violence by night. Page 4

Wine crop damaged

An unseasonable frost last month destroyed 90 per cent of the wine crop of the Jura region of eastern France, the equivalent of 80,000 bottles, the National Office of Wine Professionals said.

EC agrees food aid

The European Community finally agreed terms with Moscow on the delivery of 20,000 tonnes of free food to the poor and needy in the Soviet Union. Page 5

Lebanese offer

The newly elected leader of Hezbollah said in Beirut that his group is willing to swap Israeli prisoners for Shiite Muslim detainees, a deal that might help free westerners.

Lubbers apology

Dutch Prime Minister Ruud Lubbers said he had recently received an apology from a man who nearly stabbed him two years ago.

Weekend FT

Tomorrow: François Sperry, creator of the lagoon city and apostle of gentle architecture

Crete: island of the indomitable

Bush beats move to block Gatt talks

The Bush Administration narrowly beat off an attempt in the US House of Representatives to deny the president the vital authority he needs to continue negotiations in the Uruguay Round and to launch talks for a North American Free Trade Agreement with Mexico and Canada. Page 18

FIAT, Italian automotive and industrial group, reached preliminary agreement with the Soviet Union to take a 30 per cent stake in VAZ (Volga) Automobile (Zavod) producer of Lada cars and country's biggest carmaker. Page 18

UK Bank of England money market operations fuelled speculation that the government could be planning to cut bank base rates to 11.5 per cent today to give the economy an added boost. Page 18

KUMAGAI Gumi of Japan, one of the world's largest construction companies, said pre-tax profits could fall by 10 per cent this year due to downturn in the Japanese property market. Page 19

BT, telecommunications operator and UK's largest private company said there was no sign of recession easing despite 14 per cent profits increase to more than £2bn (£5.2bn). Page 19; Lex, Page 18

AGF, French state-owned insurance group, is buying 24 per cent of La Union y El Fenix, one of Spain's biggest insurance companies, from its owners, the independent Spanish commercial bank, Banesto. Page 19

HONDA Motor, Japanese car maker, reported a sharp fall in profits in the final quarter as US sales proved sluggish, the domestic market turned soft, and selling expenses increased. Page 22

KLOCKNER-Humboldt-Deutz, German engineering company, announced it was feeling the effects of economic weakness in foreign markets. Page 19

JAPAN'S four leading property and casualty insurers posted lower profits despite rises in premium revenues as higher vehicle repair and natural disaster payments took their toll. Page 22

WHITBREAD, brewer and retailer, showed resilience in tough trading conditions with a 9.7 per cent increase in profits to £291.5m (£503.2m). Page 20; Lex, Page 18

IBM - International Business Machines - the world's largest computer manufacturer, is taking increasingly profound steps to combat the deep structural changes in the worldwide computer market. Page 23

AT&T, American Telephone & Telegraph, seems to be close to leasing the eight-year-old headquarters in New York - one of the city's most debated pieces of modern architecture - to Sony, Japanese electronics group. Page 23

BHF-BANK in Frankfurt is arranging a DM150m (£87.7m) private placement with German investors to refinance a public bond issue made in 1984 by the South Africa Department of Post and Telecommunications. Page 24

CIA 'allowed illegal export of US missile secrets'

By Alan Friedman, Lionel Barber, Tom Flannery and Eric Reguly in Washington

US ballistic missile technology and military equipment was shipped illegally to South Africa between 1984 and 1988 with the full knowledge of the Central Intelligence Agency, according to American officials.

The US officials say they have "good reason" to believe that some of the US ballistic missile technology was sent on from South Africa to Iraq.

The officials say this technology found its way into Iraqi projects to build the Hakeim medium-range missile and the uncompleted Condor 2 nuclear-capable missile.

According to these officials, the CIA did nothing to halt the shipments to South Africa, which violated federal export law and the US embargo on the sale of military goods to South Africa.

The missile technology sales to South Africa, which continued until November 1988, were made by International Signal and Control, according to former ISC executives and Department of Justice and Pentagon officials.

The sales continued after the company was bought by Ferranti, the UK defence contractor, for \$700m in 1987. ISC was later at the centre of an alleged fraud involving fictitious contracts which brought Ferranti to the brink of bankruptcy.

US federal law enforcement officials have told a joint Financial Times and ABC News/Nightline investigation that the illegal shipments to South Africa included equipment which could be used to develop a missile capable of carrying nuclear warheads.

The technology shipped by ISC to South Africa included photo-imaging equipment used to determine the performance of missile tests, telemetry tracking equipment used to receive signals from missiles and gyroscopes used in the inertial navigation (or guidance) systems of missiles.

The illegal missile technology shipments to South Africa and other violations are expected to result in indictments in the next few weeks according to Department of Justice officials.

Ferranti executives believe that ISC was involved in the illegal shipment of military technology to South Africa. However, they reject suggestions that the company was working with the CIA.

Ferranti executives deny any knowledge of ISC shipments to South

Africa after the merger of the two companies in 1988.

Separately British sources have confirmed that, in early 1989, officials discovered that South Africa was involved in the development of sophisticated air-to-ground missiles which ISC was due to deliver to Abu Dhabi.

According to a senior official concerned at the time, the \$300m deal was blocked after London intervened with the Abu Dhabi authorities.

The deal involved ISC's UK operations and had initially received British government clearance. But the official said the missiles, for use on Mirage fighters, were of a capability far beyond what Abu Dhabi would normally be expected to require.

South Africa was working on development of the missiles for its own use

and for sale abroad, the official said.

Other technology shipments from ISC - not necessarily sent with CIA knowledge - indirectly helped Iraq to build a cluster bomb factory and also bolstered Baghdad's anti-aircraft radar systems, according to US officials who have been investigating the ISC affair.

It remains unclear why the CIA failed to intervene to halt the shipments. Some US officials have suggested that the shipments were an elaborate method of infiltrating the South African missile programme and that CIA may have wished to protect overseas operatives who were tracking the exports.

Copies of invoices, contracts Continued on Page 18 Saddam's South African connection, Page 6

Sonia Gandhi refuses leadership

By David Housego in New Delhi

DEEP divisions within the Indian Congress party over a successor to Mr Rajiv Gandhi came into the open yesterday when Mrs Sonia Gandhi, his widow, declined to take over as party president.

Mrs Gandhi had been selected as the new party president on Wednesday by a small group of Mr Gandhi's close associates in a move calculated to win sympathy votes in the aftermath of her husband's assassination.

Her refusal to accept the post leaves a vacuum with no strong contenders for the leadership.

However, it seemed last night that one possible choice for party leader could be Mr P. V. Narasimha Reddy, who was foreign minister under Mr Gandhi and had previously held a number of cabinet posts.

Mrs Gandhi said that her reasons for refusing the presidency were personal. "The tragedy that Mr Gandhi left behind is that I am a woman and I myself do not make it possible for me to accept the presidency of the Congress."

Mrs Gandhi had also come under strong pressure from a number of senior party leaders, including Mr Shree P. Varma, the chief minister of Maharashtra, not to accept the post.

They had been angered that they had not been consulted over the choice of Mrs Gandhi for the leadership.

They also felt that the fact that Mrs Gandhi is an Italian-born Christian could bring the Congress under attack from the Hindu revivalist Bharatiya Janata party - its main opponent in the current general election.

After a first round of voting at the weekend, voting has still to take place in more than 300

of the 510 constituencies being contested.

The confusion over the Congress leadership emerged as fears of widespread violence in the wake of Mr Gandhi's death receded. Most large cities returned to normal although the army continued to patrol in Delhi and other sensitive towns.

Troops and paramilitary forces were being drafted into the capital to provide security protection for the large number of foreign dignitaries, including Prince Charles, the Prince of Wales, expected for the funeral of Mr Gandhi today.

Indian police believe that Mr Gandhi was killed by a woman on a suicide mission who had explosives and a battery charger strapped to her body when she stepped forward to present him with flowers at an election rally in Tamil Nadu.

While Tamil militant groups hostile to Mr Gandhi remain the leading suspects, police were yesterday broadening their inquiries.

With all the leading political parties protesting about the length of the postponement of the last two days of polling - from Thursday and Sunday to June 12 and 15 - the election commissioner said he was reviewing requests to bring the polling dates forward.

Senior Congress leaders - including Mr Gandhi's widow - were yesterday broadening their inquiries.

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Senior Congress leaders - including Mr Gandhi's widow - were yesterday broadening their inquiries.



Sonia Gandhi arriving at the official laying in state of her husband yesterday

possibly, the election should be cancelled. These ideas have, however, been rejected by the major parties.

A Congress party spokesman gave no indication of when the party's policy-making body would meet to elect a new leader. He said that the working committee would meet at

"an appropriate time" to review the situation.

The manoeuvre to elect Mrs Gandhi as party president seems to have been based on an attempt to avoid quarrels within the party and provide a leader they could manipulate. Among the prime movers was Mr R. K. Dawan, who had also

managed Mrs Gandhi's private affairs.

It remains uncertain whether Mrs Gandhi was consulted in advance or whether the decision had been "communicated" to her as the party spokesman said.

Suicide woman leaves few clues, Page 4

Tetra Pak gains EC approval to bid for Alfa-Laval

By Andrew Hill in Brussels

BRUSSELS yesterday told Tetra Pak, the Swiss liquid packaging group, it could proceed with its SKR16.25bn (£2.65bn) bid for Alfa-Laval, the Swedish dairy and food processing equipment company, which has been held in limbo since February.

Yesterday's announcement that the suspension of the Alfa-Laval bid has been lifted means that the deal has won unconditional approval, although the ECs caused initial confusion at Tetra Pak and in Stockholm, where Alfa-Laval's shares are quoted.

A European Community (EC) official said formal approval might not come until July. "But, the Commission sees no point in holding back the merger when to all intents and purposes there's no problem with it; delay would be expensive and cause bad feelings."

The in-depth inquiry into the bid, launched by the EC's merger-control task force in March, was the first investigation of a deal between two groups based outside the EC. It comes hard on the heels of Wednesday's bargain with Fiat of Italy, which was told by the Commission that it had to reduce its stake in a French car-battery producer if it wanted to merge its battery subsidiary with that of French group Alcatel-Alsthom.

Mr Bertil Hagman, Tetra Pak's president and chief executive, yesterday praised the Commission's decision.

Continued on Page 18

K-111 BUYS MEDIA INTERESTS

News Corp agrees \$650m sale of US magazines to KKR arm

By Alice Rawsthorn in London and Karen Zagor in New York

NEWS Corporation, Mr Rupert Murdoch's heavily indebted media group, yesterday agreed terms for the \$650m sale of part of its US magazine interests and confirmed that it was in discussions over the sale of other businesses.

The magazines - which include *Racing Form*, *Soap Opera Weekly*, *Seventeen*, *Soap Opera Digest* and *New Woman* - have been sold to K-111, the publishing company controlled by Kohlberg Kravis Roberts, the investment banking business which is one of the most powerful takeover players in the US.

News Corp, which earlier this year completed an emergency \$7.5bn financial restructuring programme, is trying to raise money to meet the capital repayments on its debt.

It said yesterday it was in negotiation with potential purchasers over further disposals. News Corp refused to comment on speculation that it was discussing the sale of its commercial printing interests in Aus-

tralia.

The proceeds of the K-111 deal, which will produce \$600m in cash payment and \$50m in deferred cash payments, will go towards the \$600m that News Corp has to pay its banks by its next February as the first tranche of its \$2bn capital repayment programme. News Corp then has to make three subsequent payments of \$400m at six monthly intervals.

The acquisition will turn K-111 - which is also involved with educational books, trade magazines and data bases - into a substantial player in the US. Its revenues will increase from \$500m to around \$600m.

A source close to the deal said KKR, which holds a 75 per cent stake in K-111, will provide 40 per cent of the \$600m in cash or equivalents. The remaining 60 per cent will be raised from bank debt.

However KKR is not involved in the day-to-day management of K-111, which is headed by Mr William Reilly, former president of the Mac-

millan publishing group. K-111 plans to run the Murdoch magazines as a stand-alone group of consumer publications.

Mr Reilly said there were no plans to change the editorial policies of the magazines. "We intend to build on this base through future acquisitions and start-ups as we have done with our other companies," he said.

News Corp is believed to have initially offered to sell nine magazines - including *Mirabella*, its loss-making women's monthly, but not the profitable *Racing Form* - to K-111 for a lower price.

However K-111 came back with a higher bid if *Racing Form* was substituted for *Mirabella*.

News Corp said yesterday it was committed to supporting *Mirabella* in the US.

However it recently announced the closure of the recently launched UK edition. News Corp also plans to keep *TV Guide*, the US television listings magazine.

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CONTENTS

Spanish elections: Socialist rhetoric may still carry the rural vote	2
World Trade: Talking gets tough in US-Japan trade talks	5
Technology: How to stop a runaway computer development project	14
UK elections: The answer lies as usual in the home loan interest rate	17
Lex: UK trade figures; British Telecom; Hong Kong; brewers	18
International Banking: How can so much be going wrong at once?	Section III
Pulp and paper: Era of opportunity crumples into disillusion	Section IV
Europe	22
Companies	22
America	22
Companies	19, 20
International	19, 20
Companies	19, 20
World Trade	6
Britain	6, 19
Companies	6, 19
Reviews	15
Commercial Law	14
Commodities	14
Crossword	14
Currencies & money	38
Editorial Comment	16
Financial Futures	16
Gold	23-31
Int. Capital Markets	24
Letters	28
Latex	28
Management	12
Observer	16
Stock Markets	28-30
London	28-31
Technology	14
Unit Trusts	28-30
World Index	40

MARKETS

STERLING New York lunchtime: \$1.7355 London: \$1.735 (1.7285) DM2.975 (2.9725) FF10.1025 (10.0925) SF2.525 (2.52) Y29 (238.5) £ Index 92 (91.9) 60LB New York: Comex Jun \$355.5 (358.8) London: \$355.55 (356.3) IN SEA OIL (Argus) Brent Jul \$19.25 (19.175) Chief price changes yesterday: Page 19	DOLLAR New York lunchtime: DM1.71255 FF6.818 SF1.4599 Y137.855 London: DM1.714 (1.7215) FF5.8225 (5.845) SF1.455 (1.4595) Y137.7 (138) £ Index 95 (95.1) Tokyo close: Y137.95 US franchise rates Fed Funds 5 1/4 % 3-mo Treasury Bill: yield: 5.54% Long Bond: yield: 8.28%	STOCK INDICES FT-SE 100: 2,482.8 (+18.9) FT Ordinary: 1,945.4 (+12) FT-A All-Share: 1,198.71 (+0.8%) New York: DJ Ind. Av. 2,890.89 (+19.45) S&P Comp 373.55 (+2.54) Tokyo: Nikkei 25,843.85 (+244.99) LONDON MONEY 3-month Intbank close: 1 1/4 % (1 1/2 %) Liffe long gilt future: Jun 91 (90 1/2)
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EUROPEAN NEWS

EC reaches accord on feeding Soviet poor

By David Buchan in Brussels

THE EC finally agreed terms with Moscow yesterday on the delivery of Ecu250m (£173.3m) worth of free food to the poor and needy in the Soviet Union.

The agreement came at a meeting of the EC-Soviet joint committee that also discussed progress towards economic reforms which Soviet officials hope could unlock large amounts of macroeconomic aid from the west.

Mr Ernest Omilinsky, the

deputy foreign minister who led the Soviet delegation, said he thought most of the members of the Group of Seven main industrialised countries favoured inviting President Mikhail Gorbachev to their July summit, at which aid to the Soviet Union will be discussed.

"If the West comes out of that meeting with the feeling that the (Soviet) process is in the right direction, the finan-

cial terms could be settled," he said. With a total debt of \$63bn (£38.4bn), an economy of the Soviet Union's size could support more borrowing if the West were ready to lend, he suggested.

But EC officials pressed their Soviet counterparts on the country's payments arrears, which amount to DM2bn (£260m) owed to German companies and £120m to UK companies. Mr Omilinsky

acknowledged western aid depended crucially on political stability in the Soviet Union. Aid of "500bn or 1000bn would not help if we have a situation of conflict or war in our country".

The EC is to start delivering, through charity organisations, a first delivery of 80,000 tonnes of food, worth Ecu215m, in July to a list of hospitals, orphanages, kindergartens and old people's

homes, eventually provided by Moscow after delay. A second slice of aid, amounting to 12,700 tonnes worth Ecu35m, will go later.

Mr Omilinsky said Moscow was still in talks with the EC and western commercial banks for up to Ecu500m in EC-guaranteed credit to buy food. Also still under discussion is the EC's promised Ecu400m worth of technical aid.

Gorbachev visit, page 6

West's aid 'should be tied to democracy'

By Anthony Robinson

THE resignation of President Mikhail Gorbachev and his replacement by a democratic regime with popular support should be a pre-condition of any large-scale western financial and other assistance to the Soviet Union, according to Professor Anders Aslund, one of the most respected analysts of the Soviet economy.

Speaking at the Royal Institute of International Affairs in London he argued that, without prior democratisation, western aid would be more likely to lead to another unsuccessful attempt at authoritarian stabilisation like that tried by General Wojciech Jaruzelski in Poland after 1981.

His remarks to businessmen, diplomats and academics run

counter to the plea by Professor Jeffrey Sachs and other Harvard economists for the west to provide conditional assistance of between \$50bn (£1.5bn) and \$80bn annually to assist Soviet reform. They could also affect the current attempt by the Soviet leader to attend the forthcoming meeting of leaders from the seven leading industrialised countries (G7) in London in July which has been sceptically treated by several western governments. Mr Grigory Yavlinsky, a leading Soviet economist, is currently in the US preparing a reform package.

Professor Aslund rejected Mr Gorbachev's explanation for the collapse of the Soviet economy as a consequence of

demolishing the old command economy before creating a market system to replace it. "It is not an organisational problem. The roots lie in the failure to curb the growing budget deficit, the explosion of wages after passage of the state enterprises law in 1988 and the outrageous increase in social benefits after elections to the Congress of People's Deputies in 1989," he said.

This year's expected budget deficit of Rbs246bn, nearly 20 per cent of GDP, could be accounted for entirely by the allocation of Rbs150bn to new social programmes and Rbs110bn to new consumer subsidies, he added.

Further pressure came from the sharp increase in defence

spending to Rbs60bn, although the military insist this is a 7 per cent reduction in real terms. "These three factors are sufficient to explain the current crisis with its market imbalances, increasing reluctance to exchange goods for money and reinforcement of all the latent autarchic forces in the system," he said. The result was sky-rocketing inflation and an expected 30 per cent decline in GDP this year.

The Soviet economy was now virtually in free fall, after a 10 per cent decline in GDP. Faced with the choice, the west should give preference to helping the newly democratic regimes of eastern Europe rather than the unreformed Soviet Union, he said.

Lithuanian border posts set alight

SOVIET security forces yesterday set fire to improvised Lithuanian border posts as part of an undeclared war against Lithuania's attempts to act as an independent republic, writes Leyla Boulton in Moscow.

The dawn raids on four posts set up by Lithuania on its border with Latvia contrast sharply with the Kremlin's promise to resolve disputes with the breakaway republic by political means.

A Lithuanian spokesman said that two Lithuanian border guards were injured in the attacks. Lithuania says the border posts are to stop black-market dealers from smuggling.



Allied veterans of the unsuccessful attempt to hold Crete against German invasion 50 years ago this week during a ceremony on the Greek island yesterday. The commemorations end on Sunday with the attendance of Chancellor Helmut Kohl, who was invited as a mark of a new era in Europe since German unification.

Hundreds of German veterans are also attending ceremonies with their former enemies from New Zealand, Australia, Britain and Greece. About 30,000 Commonwealth, Greek and German soldiers died in the battle. Fighting lasted 11 days before German paratroopers overpowered Crete's defenders.

Martell fined for obstructing export rival

THE European Commission yesterday fined Martell, the French cognac producer and distributor, Ecu300,000 (£210,000) for obstructing cognac exports to Italy by a rival distributor, writes David Gardner in Brussels.

Distribution Martell Piper (DMP), the distribution arm Martell owns jointly with Piper Heidsieck, was also fined Ecu50,000. The move is part of a clampdown on attempts to restrict competition through the use of exclusive distributors.

Brussels acted after a complaint from Vincent Gosme, a French wine, spirits and food wholesaler which exports cognac to Italy, where Martell has an exclusive distributor. When Gosme increased its orders in an attempt to export more, DMP withheld the bulk order discounts to which it was entitled by virtue of its membership of one of the main French wholesalers' organisations. The effect was to force Gosme to mark up its cognac in Italy by more than 25 per cent. The Commission concluded that this restrictive practice was part of a deliberate strategy by Martell and DMP to restrain so-called "parallel exports".

Old regime comforts many east Germans

By David Goodhart in Bonn

A DISTURBING number of east Germans see the old communist regime in a more positive light because of their current economic uncertainties, Mrs Brigitte Bredel, new president of Treuhänder, the agency charged with privatising east German industry, says.

Mrs Bredel declared: "For many people, all the positive things - free elections, freedom of travel and speech - are overshadowed by this fear: Treuhänder's financial limits for this year - DM30bn in guarantees for east German corporate borrowing and DM25bn in actual Treuhänder spending - were insufficient, she added. "We have spent DM7bn alone

in the first half of 1991 on interest payments for the DM100bn of old debts carried by east German firms."

It might be the end of this year before all companies produced their first DM balance sheet, despite the original deadline of last October. Sixty per cent of companies have produced DM balance sheets; more have their own business plans. About 1,600 companies out of 8,000-plus have been sold (with 485 closed), and DM55bn in new private investment has been pledged. Five per cent of companies have been sold to foreign concerns but Treuhänder is to open in New York and Tokyo.

Poles urged to accept reform

By Christopher Bobinski in Warsaw

POLAND would face "economic chaos" if present stringent monetary policies were dropped, Mr Leszek Balcerowicz, deputy prime minister, told parliament yesterday.

Mr Balcerowicz was speaking ahead of a debate on the allocation of state sector enterprises to the Congress of People's Deputies on Wednesday.

He warned against any easing of monetary restrictions agreed with the International Monetary Fund. "Healthy growth cannot be bought at the price of high and mounting inflation," he said.

Mr Balcerowicz implied monetary policies were, if anything, too slack and banks would be too tight policy towards chronically indebted

enterprises. The government would also speed up privatisation of state sector enterprises. Further efforts would be made to open markets to Polish goods and to attract western investment.

Philips, the Dutch electronics group, pledged to invest about \$300m (£173.4m) over the next five years in the Polam Pila lighting plant in an agreement signed yesterday.

Philips has been negotiating a takeover of the plant, in the north-west of the country, since the beginning of the year. In February the government agreed to sell 51 per cent of the shares for \$18m. The Philips stake rises to 66 per cent under the deal signed yesterday, with the Dutch agreeing to cover costs arising from environmental

pollution by the plant. Workers at Polam Pila had threatened to go on strike unless the agreement was signed by May 23. A majority private share in the company removes the government's wage control restrictions.

The US Boston-based Pioneer Group has filed the first application to Poland's new Securities Commission for permission to set up an fund aimed at investing in Polish companies.

The company would hope to raise \$100m from Polish investors and to place some on the country's fledgling securities market and the rest abroad. Pioneer will withdraw its application unless the Poles give permission for the funds raised at home to be invested abroad.

Europe venture capital investment in decline

By Charles Batchelor

THE European venture capital industry's record of unbroken growth was interrupted in 1990 when money raised and sums invested declined. The setback was noticeable in Europe's most developed venture capital markets: Britain, France and the Netherlands, but the German market came alive after a long torpor.

Venture capitalists raised Ecu4.6bn (£3.2bn) in 1990, a fall of 21 per cent on 1989, taking total venture capital funds, invested or available for investment, to Ecu28.4bn, the European Venture Capital Association said. Investments totalled Ecu4.1bn, 3 per cent down on 1989.

The UK continued to dominate the industry in Europe, accounting for just over half the venture capital pool, but continental European venture groups together raised more than their UK counterparts for the first time.

UK groups raised Ecu2.0bn, down on the Ecu3.2bn raised in 1989, while continental groups raised Ecu2.4bn, up from Ecu1.2bn the year before. Germany overtook the Netherlands and Italy in 1990, in terms of size of the national venture capital pool. It rose from number five to three in the European league table, with a total Ecu2.1bn funds available.

Kohl sees common EC defence

MR Helmut Kohl, the German Chancellor, said yesterday that a common European foreign policy must, in the long run, include a common security and defence policy, writes Robert Manthner, Diplomatic Editor.

However, he stressed in a speech at Edinburgh university where he was awarded an honorary doctorate, that such a European policy must neither replace nor weaken the Atlantic Alliance. "The Alliance and the presence of US troops in Europe remains indispensable for our security."

He reiterated the German position that a treaty on political union must go hand in hand with a treaty on economic and monetary union being discussed by two inter-governmental conferences.

<p>NEDSCHROEF Nederschroef Holding N.V. has acquired Die Verzekering Ondernemingen (VVO), Germany</p> <p>The undersigned acted as adviser to Nederschroef Holding N.V.</p> <p>ABN AMRO August 1990</p>	<p>Hazlewood Foods plc Incorporated in England</p> <p>The undersigned acted as adviser to Hazlewood Foods plc.</p> <p>ABN AMRO December 1989</p>	<p>SCOTTISH & NEWCASTLE BREWERIES plc Incorporated in England</p> <p>The undersigned acted as adviser to Scottish & Newcastle Breweries plc.</p> <p>ABN AMRO MORGAN GRENFELL January 1991</p>
<p>RAET RAET NV has acquired AGI Automation Centre International A.G., Switzerland</p> <p>The undersigned acted as adviser to RAET NV.</p> <p>ABN AMRO December 1990</p>	<p>J. LYONS & COMPANY an subsidiary of Allied-Lyons PLC Incorporated in England</p> <p>The undersigned acted as adviser to J. Lyons & Company Limited.</p> <p>ABN AMRO January 1991</p>	<p>KIN SERVICES has acquired a building company</p> <p>The undersigned acted as adviser to Kin Services.</p> <p>ABN AMRO February 1991</p>
<p>Koninklijke Verkeers N.V. has been acquired by UB UB (Holdings) Netherlands N.V.</p> <p>The undersigned acted as adviser to Koninklijke Verkeers N.V.</p> <p>ABN AMRO June 1991</p>	<p>SAMAS-GROEP Samas Group N.V. has acquired VF International Ltd., United Kingdom</p> <p>The undersigned acted as adviser to Samas Group N.V.</p> <p>ABN AMRO May 1990</p>	<p>HAZLEWOOD FOODS plc has acquired HAZLEWOOD INTERNATIONAL N.V. has acquired LIJCKX BEHEER B.V.</p> <p>The undersigned acted as adviser to Hazlewood Foods plc.</p> <p>ABN AMRO</p>

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INTERNATIONAL NEWS

Party in disarray as Sonia Gandhi rejects presidency

By David Housego in New Delhi

THE Indian Congress party was in a state of disarray last night after Mrs Sonia Gandhi, the Italian-born widow of Mr Rajiv Gandhi, declined to accept the presidency of the party.

"The Congress party has been in power so long and yet they cannot find a leader", said one of the party's inner circle impatiently. Mrs Gandhi was the easy choice to forestall further leadership quarrels. But her being both Italian-born and a Christian made her a liability in the eyes of many senior Congressmen to a party whose main opponent in this election is the Hindu revivalist movement.

Apart from her, there are no other obvious choices. The most senior figure in the party, and now the most likely successor, is Mr PV Narasimha Rao, 70, who was long an unofficial number two to Mr Gandhi. He was foreign minister under Mr Gandhi and home minister under his mother. But he has been in poor health after recent open heart surgery and has no wish to assume the leadership in the midst of an election campaign.

A second possibility is Mr ND Tiwari, 57. A large heavily built man who always wears a white Nehru cap, he has been finance minister in the

central government and chief minister of Uttar Pradesh. He is the Congress "boss" in UP - but one whose loyalty Mr Gandhi doubted. Mr Tiwari has great political astuteness and skill in backroom manoeuvres. But he is more a politician of the Hindi speaking north than he is a national leader.

A third contender is Mr Sharad Pawar, chief minister of Maharashtra. He is also more a regional "boss" than national politician. He played a key role in putting pressure on Mrs Gandhi to decline the presidency. Mr Pawar has also been a prime mover of a long simmering scheme to reunite

the Congress with factions of the Janata Dal under the leadership of Prime Minister Chandra Shekhar.

The party's difficulty in finding a leader reflects weaknesses in the way it has been run both under Mrs Gandhi and Rajiv. Jawaharlal Nehru allowed talent to flourish under his leadership and had thus several ministers or heads of governments in the states who developed strong reputations. Both Mrs Gandhi and her son feared that their ministers could become their rivals and therefore clipped their wings.

Coupled with this system of pre-

venting senior Congressmen from becoming too successful both Mrs Gandhi and her son depended heavily on back-room advisers and loyalists. Most prominent among these is Mr RK Dhanraj who managed Mrs Gandhi's private office and assumed an increasingly important role under Rajiv in handling the party's affairs. Mr Dhanraj is believed to have been a prime mover in the campaign to draft Mrs Sonia Gandhi. Failure of the manoeuvre will be damaging to his power and to that of other former close associates of Mr Gandhi.

World stock market report, Page 43

Major may appeal to China over Hong Kong airport

By John Elliott in Hong Kong

MR JOHN MAJOR, UK prime minister, is to consider appealing personally to Li Peng, China's premier, to approve the building of Hong Kong's proposed HK\$100bn (£7.5bn) international airport which faces the risk of being seriously delayed, even cancelled, because of an impasse between the two countries.

He will decide if such an initiative is worth making during the next few days, after senior ministers will have heard a report on five days of talks in Peking which ended in deadlock. A spokesman for the Chinese government indicated yesterday more talks would be held later. Sir David Wilson, Hong Kong's governor, said it was too early to confirm this. Proposals put forward by both countries had "not matched up", he added. He described the UK proposal as "very practical". The Chinese spokesman said Peking had been "positive and constructive".

China is believed to have proposed a joint commission to vet a wide range of government policy decisions overrunning the 1997 date for handover to Chinese sovereignty. The UK rejected this and tried unsuccessfully to separate the

airport from wider issues of China's control before 1997.

The project is now nearer being cancelled by the Hong Kong government than at any time since China first started querying the plans nearly 18 months ago. China is using the project to gain a large degree of control over long-term decisions in Hong Kong before it

the sovereignty handover. Hong Kong cannot raise international equity and loans for the project until China cuts the political risk to manageable size by indicating its backing. But private-sector interests are considering mounting a rescue operation if the talks break down.

The impasse has delayed bridge and roadwork tenders, which have a deadline of next month. If that is missed, the government will have to admit its planned airport opening date of 1997, a steady regarded as unrealistic by senior engineers, must be abandoned. That would be a blow, because the government had hoped to open the airport just before Hong Kong goes back to Chinese sovereignty. China's refusal to come to agreement is being seen in Hong Kong as an attempt to humiliate the UK.

K.K. Sharma and Mervyn de Silva report on the scope of the police inquiries

Suicide woman leaves few clues to her motive

INDIAN police agencies investigating the assassination of Mr Rajiv Gandhi yesterday broadened their inquiries from the initial suspicion that a militant Tamil organisation was behind the killing.

They did so after examining the remains of a woman who blew herself and Mr Gandhi up with a bomb concealed in an abdominal belt. The woman's remains are badly disfigured but the examination suggests that she could have been either a Tamil or a Punjabi.

Indian police agencies are working on the two possibilities that the woman belonged to either an extremist Tamil group or a Sikh militant organisation. Both have motives for the assassination. The militant Tamil Tigers believe they were betrayed by Mr Gandhi when he agreed to send the Indian army to Sri Lanka.

The Indians fought a prolonged and indecisive war in Sri Lanka. Many militant Sri Lankan Tamil groups believe that as a result they were prevented from winning an independent homeland they call Eelam.

The Tamil Tigers (LTTE) made little effort to conceal their disappointment with the India-Sri Lanka agreement of July 1987 signed by President Junius Jayawardena and Prime Minister Rajiv Gandhi. According to the Congress (I), that treaty guaranteed the safety of the minority Tamils in Sri Lanka's north and east, safeguarded India's security interests and preserved the island's territorial integrity.

In August 1987 the Tigers were the only group to reject the accord, although Mr Velupillai Prabhakaran, their guerrilla chief, had promised Mr Gandhi he would co-operate with the Indian Government.

On returning to Jaffna after negotiations over the accord in Delhi Mr Velupillai Prabhakaran pledged that the "struggle for Eelam" would never end. He rejected the accord because the regional autonomy granted fell short of his dreams.

Mr Gandhi also insisted on free elections to the new assembly in which all Tamil militant groups could contest. This allowed the Tigers' hated rival, the EPRLF, to participate and win the majority of seats.

However, during the last three months, according to sources in Madras, the Tigers had settled their differences with Mr Gandhi mainly through talks with Ms Jayalalitha, a former film star whose party is an ally of the Congress in Tamil Nadu. Hence, the Tigers are thought to have supported the Congress in the Indian elections and worked for Mr Gandhi.

Notwithstanding this, Dr Subramaniam Swamy, India's controversial Minister of Law, said in New Delhi yesterday that evidence gathered so far points to the involvement of the Tigers in the assassination, although he added "there is no clinching proof" for this.

If reports of Mr Gandhi's recent rapprochement with the Tigers are correct, it would appear that militant Sikh organisations had a stronger motive for killing Mr Gandhi who has been on his hit list ever since his mother ordered the Indian army to launch "Operation Blue Star" to flush out armed Sikhs from the holy Golden Temple in Amritsar in 1984.

The groups assassinated Mrs Indira Gandhi a few months after the army action and they had vowed to kill other members of her family.

However, it is clearly too early yet to establish any firm conclusions and police sources concede that they are still in the exploratory stages which are leading them to question Tamils, try to track down other militant organisations and investigate all possibilities.

These even include a theory that Sikh and Tamil militants had established contacts with each other with the aim of assassinating Mr Gandhi, the opportunity for which came during his election campaign when he shed security precautions and mingled freely with audiences in election meetings.



Sonia Gandhi sits with her son Rahul at the foot of her husband's body at Teen Murti House in New Delhi yesterday

Financing difficulties worsened by assassination

International banks toughen stance

By Stephen Fidler, Euromarkets Correspondent

THE MURDER of Rajiv Gandhi is likely to postpone it still further. The fall of the government delayed approval of the country's 1991-92 budget, upon which hangs agreement by the International Monetary Fund of a standby loan programme.

The latest invasion of Kuwait intensified the financing difficulties already being faced by India. The rise in energy prices pushed up its oil bill significantly, while remittances by Indian workers - an important source of foreign currency - dried up significantly. This increased international bank worries about the security of their funds.

According to estimates from the Institute of International Finance, the Washington-based think tank created by international banks to study the debt problems of third world countries, the oil deficit increased to \$5.6bn (£3.2bn) in the fiscal year ended March 31, from \$3.5bn the year before.

This helped push the trade deficit to \$6.6bn and the cur-

rent account deficit to \$3.9bn, the institute estimates. Foreign debt rose by \$5.8bn last year, although banks pulled almost \$500m out of the country, compared with their net loans of nearly \$800m the year before. Of the total debt of \$70.2bn, some \$44bn is owed to official creditors and \$11bn to foreign banks.

The problems intensified early this year, forcing India to draw down some \$1.9bn from its foreign exchange reserves and leaving \$2.5bn in March 1991, less than one month's worth of goods and services. Although official holdings of gold amount to \$3.8bn, the government has said that it will not sell gold or use it as collateral for loans.

Keeping an unblemished record of foreign debt payments may be the least of India's worries in the years ahead, but if it is to do that it will depend heavily on the IMF. The IMF disbursed \$1.8bn to India in January, including

a \$1bn meant to make up for the impact of the Gulf crisis.

If it is to secure that record - and that will depend on help from commercial banks and other official creditors, including the World Bank - it will need to assure the Fund that it is bringing its budget deficit under control.

Such action, at a time of political unrest, is likely to be resisted by the authorities as a highly risky venture. In recent talks at the spring meetings of the IMF and World Bank in Washington last month, Indian officials were still emphasising that India was a special case and that solutions appropriate for other economies were not suited to India's.

However, whether or not this is the case, foreign creditors are likely to seek evidence of a fundamental shift in the inward-looking economic policies that have been in place since independence before they will provide India with significant financial support.

RESERVE BANK selling, along with a "talking down" of the Australian dollar by Mr Bob Hawke, the prime minister, yesterday, triggered a dip to the currency's lowest level against the US dollar in 12 months.

Offshore investors appeared to panic after Mr Hawke said a "somewhat lower exchange rate" would help Australian exporters. The Australian dollar fell US15 cents over the day to US76 cents, after being nearly US2 cents down.

Currency markets were nervous ahead of Mr Hawke's comment. Earlier, Mr Bernie Fraser, Reserve Bank governor, was reported as saying a 5 per cent depreciation would help cut Australia's current account deficit. The dollar dropped US10 cents when the news reached currency dealers.

"Ideally, if there were some way of knocking 5 per cent off the exchange rate and nothing else happened... it would help the current account deficit," Mr Fraser had said, adding Australia's inflation rate would fall to 4 per cent within a year. Currency traders began to sell overnight. The Australian dollar has fallen from Y104.4 to Y104.4 in the past four days.

Saudis turn to banks to ease war costs burden

THE Saudi Arabian government is seeking a \$2.5bn loan from a group of big Saudi banks to help meet some of the costs of the recent Gulf war, financiers in the Saudi capital said yesterday, AP-JD reports from Bahrain.

The kingdom's two largest banks, National Commercial Bank (NCB) and Riyad Bank, have been discussing the terms of the loan with the government and are expected to syndicate the deal among other local banks, financiers said.

The deal would be the second foreign currency loan raised by Saudi Arabia this year and marks a break with the kingdom's policy of avoiding foreign borrowing. Earlier this month, the kingdom signed a \$250m credit with a group of foreign banks, the first dollar borrowing by Saudi Arabia in more than two decades.

Businessmen said interest charges on the new loan are likely to be set at about 4 per cent to 5 per cent above Libor (the London interbank offered rate). The Islamic prohibition of usury makes borrowing a highly sensitive subject for the Saudi government.

Financial sources said they expected Saudi Arabia will use the credit to pay off the \$13.5bn which the kingdom agreed as its contribution towards the costs of the war to free Kuwait. Saudi Arabia has still to pay around \$8bn of the commitment made to the US and has

faced criticism in Congress for the delays in paying off the balance. US officials have been trying to get the kingdom to agree a timetable for paying off the remaining debt.

Bankers said the high levels of liquidity in Saudi banking system should make it relatively easy for the government to raise loans.

Officials from NCB and Riyad Bank met yesterday to discuss a strategy for bringing other Saudi banks into the credit, according to the sources, who requested anonymity.

Despite government worries about foreign borrowing, there have been tentative moves in recent years to allow parastatal companies to borrow more freely.

Earlier this week, news emerged that a subsidiary of Saudi Aramco, the national oil company, is borrowing \$300m from local banks in what is apparently the first-ever dollar borrowing by the state-owned oil producer.

Vela, the Saudi Aramco unit which runs the kingdom's fleet of oil tankers, will use the 13-year loan to purchase new vessels, bankers said.

Two years ago the Public Investment Fund (PIF), a government pension fund body, set the trend for foreign currency borrowing by parastatals with a \$660m credit syndicated among Saudi-owned banks.

Bankers said the trend towards parastatal borrowing is likely to continue.

South Africa election won by right-wing

SOUTH AFRICA's right-wing Conservative Party (CP) has won a by-election victory in Orange Free State in what political analysts described as a sign of bloody confrontation to come, Reuters reports from Johannesburg.

Results released yesterday showed the CP had beaten the National Party (NP) of reformist President FW de Klerk by 1,258 votes in Ladybrand constituency, compared with a CP majority of 70 votes in the general election in 1989.

Cubans quit Angola

The last Cuban soldiers in Angola are expected to be pulled out over the week-end, ending almost 16 years direct military backing for the MPLA (Popular Movement for the Liberation of Angola) government, Robert Graham writes. The 2,000 troops will be leaving five weeks ahead of schedule, following a peace agreement in Portugal on May 1 between the government and its long-standing opponents, the US and South African backed Unita (National Union for Total Independence for Angola) rebels.

Tibet's 40 years

China, vowing Tibet will never be independent, celebrated 40 years of communist rule over the remote Himalayan region with rallies and fireworks under tight security, Reuters reports from Peking. China has been widely criticised by western governments for human rights violations in Tibet. A Tibetan government official, contacted by telephone yesterday, said some Buddhist monks would attend official ceremonies but most would remain in their monasteries around the city.

Amnesty for 258 in South Korea

By John Ridding in Seoul

SOUTH KOREA yesterday announced amnesties and cut sentences for 258 people jailed for, or accused and convicted of, political crimes, in an attempt to defuse the biggest wave of protests seen in Seoul since 1987.

The move follows yesterday's resignation of the prime minister and comes amid indications that a broader cabinet reshuffle will be announced today.

The moves have been greeted with scepticism by opposition leaders. But there are signs that the wave of demonstrations, fuelled by the death of a student in disturbances last month, are beginning to subside.

Some 74 people will be freed tomorrow and another 30 will have their sentences cut. All were convicted and jailed under the national security law, revised this month. The remaining 154, including Mr Kim Dae Jung, leader of the biggest opposition party, will have charges under the law dropped.

Mr Lim Su Kyong, a student, and Mr Moon Kyu Hyun, a pastor, both sentenced to five years for making unauthorised visits to North Korea, were excluded from the amnesty.

Hawke talks down Australian dollar

By Mark Westfield in Sydney

RESERVE BANK selling, along with a "talking down" of the Australian dollar by Mr Bob Hawke, the prime minister, yesterday, triggered a dip to the currency's lowest level against the US dollar in 12 months.

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Tunisian exiled leader denies planning a coup

THE exiled leader of Tunisia's outlawed Nahdha Islamic movement denied government charges yesterday that he planned to seize power through a military coup, Reuters reports from Paris.

A challenge (Tunisian authorities) to prove these allegations to the Tunisian people in accordance with due process," Mr Rachid Ghannouchi said.

"Our means for change are civilian and peaceful. We have always opposed a putsch," he told Radio France Internationale.

Tunisia said on Wednesday it had arrested nearly 300 Moslem fundamentalists, including 100 army men, accusing them of planning to seize power in a coup and create an Islamic state.

Mr Ghannouchi said that,

over the past few months, eight Nahdha militants had been killed and 3,000 had been detained. Police were hunting another 10,000.

He said Nahdha was a civilian movement. It had sympathisers within the army as in other sectors of Tunisian society but they could not be described as militants.

Mr Ghannouchi said Tunisian authorities had issued an international arrest warrant against him.

In a letter to the French daily Le Monde, he said "Tunisian President Zine el-Abidine Ben Ali had decided last September to crush the Islamic movement."

"It is this plan, carefully hatched for several months, which is now being methodically carried out with force," he wrote.

Addis Ababa awaits the violence by night

By Julian Ozanne near Tatak in Ethiopia

WITH HEADS hung low, thousands of dishevelled, battle-weary Ethiopian soldiers retreating from the front-line straggled down a twisting road at Tatak, 30km west of Addis Ababa yesterday, as rebels continued their push to the capital.

Tension continued to mount in Addis Ababa, for fear of a breakdown in law and order, as armed government soldiers poured into the city.

The government released nearly 200 political prisoners, many of them active in the coup attempt of May 1989, in an effort to make further concessions to the rebels.

The release of political prisoners has been one of their key demands. But the rebel Ethiopian Democratic People's Revolutionary Front (EDPRF) refused to accept the renewed plea for a ceasefire made late on Wednesday by acting president Tesfaye Gebre Kidan.

Mr Meless Zenawi, a rebel leader,

assured US officials his fighters would not enter the capital until after US-sponsored peace talks are scheduled to start in London next Monday.

"Meless is trying to build up the pressure in Addis so that he can dictate terms in London," one US official said. "But we are not sure whether he has complete control over his field commanders."

Fighting raged yesterday 8 kms north of Tatak where at least 30,000 government troops with 40 tanks are dug in. By afternoon, thousands of troops with torn uniforms, machine guns and rocket-propelled grenades were heading into the capital.

Hundreds hobbled on makeshift crutches, their limbs blown off in recent fighting. Others had their arms in slings and their heads bandaged. Most of the wounded were from among the 3,500 patients at the military hospital in Tatak, closed yesterday apparently in

preparation to evacuate the town.

As the government army entered the capital in disarray, Ethiopians savoured the taste of freedom for the first time since the former dictator, Mengistu Haile Mariam, fled the country on Tuesday.

In marked contrast to the apathy which has so far characterised the city's residents, hundreds of people danced and chanted as a 30ft statue of Lenin, the last left in black Africa, was taken down.

People threw stones at it, spat on it and tried to set fire to Lenin's face with flaming pieces of paper.

But underlying the first signs of celebration, many remained subdued at the prospect of rebels entering the city. Soviet T-72 tanks were, for the first time, positioned outside all the entrances to the Menelik Palace, the residence of Mr Gebre Kidan and the stronghold of the highly-trained 300-

strong presidential bodyguard.

As the first reports of looting and highjacking of cars on the outskirts of the capital began to reach them, many people left their jobs for home, fearing an outbreak of violence at night. The 9pm-5am curfew remained in force.

Hundreds milled around on the streets watching the soldiers limping in. "It has all the signs of a city just about to disintegrate into anarchy and violence," one western observer said.

But hopes, however slim, still remain that the rebels will pause outside the city until the London talks, where a broad-based transitional government could be agreed, paving the way for a ceasefire and democratic elections.

Both Mr Zenawi and Mr Issayas Aferwerki, leader of the Eritrean People's Liberation Front, who were fighting yesterday south of Asmara, told the US they would come to London to negotiate seriously.

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Floating Rate Notes due 1995

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 22nd August, 1991 has been fixed at 11.7125% per annum. The interest accruing for such three month period will be £295.22 per £10,000 Bearer Note, and £2,952.19 per £100,000 Bearer Note, on 22nd August, 1991 against presentation of Coupon No. 1.



22nd May, 1991

London Branch
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Rate Notes due 1996

In accordance with the provisions of the Notes, notice is hereby given that for the three month period from 22nd May, 1991 to 22nd August, 1991 the Notes will bear interest at the rate of 11.6625 per cent per annum.

Interest per £5,000 Note will amount to £146.98 and will be paid for value 22nd August 1991 against surrender of Coupon No 21.

Chartered WestLB Limited
Agent Bank

WORLD TRADE NEWS

US and Japan fail to settle construction row

By Robert Thomson in Tokyo

THE US and Japan yesterday failed to settle a dispute over foreign access to Japan's construction market, and US officials warned that sanctions would be imposed on Japanese construction companies in the US unless there was a resolution before the end of May.

Negotiators are likely to meet in Tokyo again next week, but Mr Michael Farren, the US under-secretary of commerce, said the countries were still far apart in talks on assigning projects in Japan for which foreign companies will receive special treatment.

The two countries are negotiating the renewal of a 1988 accord designed to give US contractors needed experience in the Japanese market by targeting 17 public works projects for which there would be special application procedures.

Mr Farren said Japan has nominated about a dozen more projects, while the US wants about two dozen projects on the list.

He said that when the US

suggested new projects, Japanese officials insisted that there was a "timing" problem. "They say the project is too early or too late for inclusion. That's a not surprising answer. That's the answer foreign firms have heard for decades. They are just too early to get one (a contract) or just too late," Mr Farren said.

Japanese officials argue that the original agreement was meant to be a once-only opportunity for a special introduction to the market and that a new agreement with extra projects goes against the spirit of the first accord.

In late April, Mrs Carla Hills, the US Trade Representative, said that Japanese companies would be barred from federal-funded construction projects from May 31, unless the dispute was resolved.

Mr Farren said yesterday that the ban may not immediately affect a large number of Japanese companies, but could cause longer-term damage to their credibility in the US.

UK awarded Kuwait schools contracts

By Mark Nicholson

JOHN LAING International and the British Council yesterday signed contracts worth up to \$40m (\$69m), to supply Kuwait with equipment and advice to enable its schools, which were gutted during the Iraqi occupation, to reopen by September.

The contracts are among the largest so far won by British groups during Kuwait's reconstruction effort and some of the first designed to repair the Iraqi occupation, to reopen by September.

John Laing will manage the procurement and installation of equipment for 205 schools, mainly to replace technical facilities looted from school laboratories. The British Council will offer curricular and technical advice to the Kuwait ministry of education.

The deal follows a visit to Kuwait in April of a consortium of British educationalists and industrialists, spearheaded by the British Council, after the Kuwaiti government had indicated it was placing a priority on opening its schools and universities.

The government viewed the resumption of normal education as essential if the thousands of Kuwaiti families who fled the invasion were to be encouraged to return to the emirate.

A team from the British Council will visit Kuwait next week to draw up specifications for the equipment to be provided under the deal. UK educational suppliers will be invited to tender for components of the contract.

Tokyo must reform barriers says Delors

By Stefan Wagstyl in Tokyo

MR Jacques Delors, president of the European Community, yesterday urged Japan to reform internal barriers to foreign trade and investment.

In language reminiscent of US attacks on restrictions in Japanese markets, Mr Delors said: "The most important thing now is the hard core of the Japanese system: structural barriers - whether it be the distribution system or the closed nature of industrial groupings; barriers stifling the propensity to consume and import; and tight control over the domestic market as a basis for controlling external markets."

"We cannot be satisfied with declarations of good intent in all these areas. The only way of getting to the root of Japanese over-competitiveness is through broadening our approach (on tackling internal barriers)."

Mr Delors did not explain what he meant by over-competitiveness, but made clear he expected Japan to cut its surplus with the EC.

Mr Delors was speaking to Japanese and European officials and businessmen during a visit to Japan which is due to end tomorrow. Asked about the views of Mrs Edith Cresson, the new French prime minister, who has attacked Japanese trade policies, Mr Delors said Mrs Cresson's message was an expression of concern about Japan's capacity to reach a balance in economic relations and a warning that Europe intended to increase its competitiveness.

Mr Delors gave credit to Japanese steps to open markets to imports, but said they were not enough. The trade deficit was widening again. Also, trade flows alone were not the real issue, but "technological and industrial dependence."

Mr Delors suggested that European companies faced being dependent on Japan because they could not enter the Japanese economy as well as Japanese companies could enter Europe. "We must never forget that the ratio between community investment in Japan and Japanese investment in Europe is somewhere in the region of one to 17."

Talking gets tough in Japan trade debate

Robert Thomson finds mistrust and suspicion on both sides of the table in SII talks

THERE was a noticeable shift this week in the trade debate between Washington and Tokyo. Both governments have taken to blaming the other's companies for the bilateral trade imbalance, and US officials are hinting that investment opportunities for Japanese companies could be restricted in the US.

Addressing the causes of US economic ills, Mr Makoto Utsumi, Japan's deputy finance minister, raised the subject of executives' remuneration and "a certain US car company" that pays its chairman 150 times more than its skilled workers.

This criticism of companies is, in part, a reflection of the governments' inclination to point to their own good works and to justify the existence of the Structural Impediments Initiative (SII), designed by them to address the basic causes of the trade imbalance. SII has involved discussion of weighty issues such as education, public works spending, and the US budget deficit.

But the increasing focus on corporate behaviour also reflects Washington's conviction that trade problems will remain unsolved until the influence of the *keiretsu* is diminished. *Keiretsu* are the Japanese corporate groupings characterised by cross-shareholdings, close business relationships, and regular meetings of the member companies' executives.

At a review this week of SII

promises made a year ago, US officials congratulated the Japanese government on having increased infrastructure investment, partly deregulated the distribution system, and continued the liberalisation of foreign investment.

But, on *keiretsu*, the US report on Japanese reforms said that these groupings,

trading partners are growing more frustrated with *keiretsu* obstruction and Japanese companies may find that restrictions are imposed on their international activities. Japanese companies, he said wryly, should show their famed long-term business sense and make the changes.

But Mr Utsumi at the

year also contained similar advice: "Excessive executive compensation may have adverse effects not only on the morale of the employees, but also on corporate savings." The report suggested that Washington "review the tax code" to reduce these "excessive" salaries.

Washington was also advised to "induce long-term corporate behaviour", which is the Japanese way of saying that US companies have to broaden their vision. One suggestion was that corporations should make profit statements "less frequently than quarterly", while the US government should monitor mergers and acquisitions to ensure that "reasonable" lending practices prevail.

Washington's suggestions may indeed help to strengthen US companies but, as has been the case since the SII process began two years ago, Washington would prefer to make Japan more like the US than to make the US more like Japan. And while Japan's current account surplus fell from \$57bn in 1989 to \$38bn last year, the figure has been on the rise in recent months.

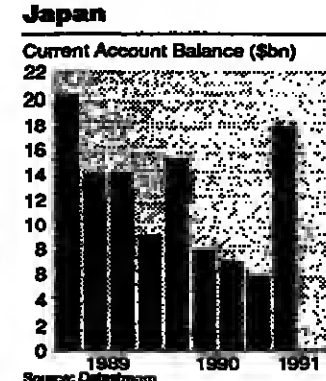
In pressing for change, US officials this week released a joint price survey conducted under SII that showed prices of comparable products are on average 37 per cent more expensive in Japan than in the US and, curiously, that the same bottle of Japanese-made sake was 44 per cent more

expensive in Japan than in the US. To increase competition, the US wants a toughening of anti-monopoly legislation, including higher penalties than the present 6 per cent of sales over a maximum of three years. Washington also wants criminal actions launched against violators and tougher criminal fines, which it says are now less than 0.5 per cent of those in the US and Canada.

As for the *keiretsu*, Washington wants Japan's Fair Trade Commission (FTC) to monitor transactions within the groups to see if there is any bias in the buying patterns, and would like the commission to target a specific industry sector, say, car makers, and to study the behaviour of companies such as Toyota and Nissan.

US officials accept that the FTC has become more active - investigative staff has been increased by 7 per cent over the past year and the number of anti-monopoly rulings rose from 7 to 22 - but there is still a sense in Washington that the commission is selective about its targets and that the most influential Japanese companies are not investigated.

This US sense of corporate conspiracy, unfortunately, has been fuelled by the outcome of one successful FTC investigation. The commission found that Japanese companies had routinely rigged bids for work done at US military bases in Japan.



Source: Cabinet Office

But Mr Utsumi at the Finance Ministry suggested that US officials are "confused" by the *keiretsu*, whose close ties are mistakenly interpreted as sinister collusion, and that US criticism arises from a misplaced sense of victimisation by Washington.

Finance Ministry suggested that US officials are "confused" by the *keiretsu*, whose close ties are mistakenly interpreted as sinister collusion, and that US criticism arises from a misplaced sense of victimisation by Washington. He also chipped in with the idea that corporate America would be more competitive if executives did not set their own salaries. The formal Japanese review of US progress in implementing SII progress over the past

CoCom nears pact on exports

By William Dawkins in Paris

WESTERN allies were yesterday evening nearing agreement, a day early, on the final details of a wide reduction in strategic export controls on technology sales to the Soviet Union and the former East bloc.

A meeting of sub-ministerial officials from the 17 countries of CoCom (Coordinating Committee for Multilateral Export Controls) was yesterday afternoon putting the finishing touches to a two-thirds cut in the number of export goods subject to vetting by CoCom.

The accord will replace the former CoCom list of 120 restricted goods with 10 simplified product categories. Almost

any civil technology product outside the list can be sold freely to the east after late June or early July, when the new rules are due to have been put into effect by national export licensing bodies.

The so-called core list includes industrial products with potential military value like high speed computers, advanced telecommunications equipment and information protection devices, advanced materials and machine tools, sensing systems, navigation and avionics equipment, marine technology and propulsion systems.

CoCom, which embraces all of Nato, minus Iceland but plus Japan and Australia, will continue to control exports of munitions and atomic energy products.

This fills in the detail of an outline liberalisation accord struck last June in recognition of the political reforms in eastern Europe. Since then the Gulf war and the Soviet military's response to the upheavals in the Baltic republics have encouraged fresh caution within CoCom over the level of technology to be freed from controls, but not over the principle of streamlining the restrictions.

EC to put anti-dumping duty on sweetener import

THE European Community will impose anti-dumping duties on a cut-price low-calorie sweetener imported from the US and Japan, EC officials said yesterday. Reuter reports from Brussels.

The EC's executive commission has already slapped provisional duties on imports of the sweetener, Aspartame, from NutraSweet of the US and Japan's Ajinomoto.

EC ambassadors had finalised the decision, according to one diplomat, leaving it to be formally approved by EC ministers next week.

Under EC rules the provisional duties - \$36 per kilo on the US imports and \$41 on the Japanese imports - would last if EC governments did not decide to make them permanent within the next few days.

The duties, adding 70 per cent to the company's export prices, were designed to protect the Community's sole producer, the Holland Sweetener Company, which had complained of heavy losses.

NutraSweet and Ajinomoto sell in the Community through a jointly owned Swiss company. The EC imports 700 tonnes of the sweetener a year.

This announcement appears as a matter of record only



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ARMS FOR IRAQ

Saddam's secret South African connection

A steady flow of illegal missile technology was exported from the US with full CIA knowledge

"I have been helping our US intelligence agencies throughout the 1970s and 1980s."

THAT seems an unusual statement for the former deputy chairman of a company listed on the London Stock Exchange. But then the man in question - Mr James Guerin - and Ferranti, the company he is accused of swindling - have been at the centre of a most unusual set of circumstances.

Now, it is clear, those circumstances included an arms trafficking ring which connected the US, South Africa, Chile and Iraq.

To those who knew him in his home base of Lancaster, Pennsylvania, set in Amish farm country, Mr Guerin seemed the ideal family man, churchgoer and philanthropist. In 1988, however, when Ferranti, the British defence company, found itself the victim of an arms contract fraud now estimated by US investigators to total \$1bn, Mr Guerin became linked to one of the biggest corporate scandals in British commercial history.

Ferranti blamed the fraud on International Signal and Control (ISC), a little-known Pennsylvania electronics business it bought from Mr Guerin in 1987. Ferranti paid \$700m for ISC and made Mr Guerin deputy chairman.

Faced with a growing scandal, Ferranti swept aside its top management and brought in new executives, including Mr Guerin. Ferranti alleges that Mr Guerin overvalued ISC through a "stunningly conspiratorial" and "non-existent" contracts.

But Mr Guerin's defence to his friends in Lancaster was always that his company's activities were sanctioned by the US government.

"He was constantly boasting about his connections in Washington and about his contacts with the CIA," recalled one of the former ISC executives who will soon be indicted by a grand jury presently sitting in Philadelphia. Now, it seems, there was something in these claims.

In the US, a small army of prosecutors, law enforcement officials, Pentagon investigators, the FBI, the Internal Revenue Service (IRS), the Securities and Exchange Commission (SEC) and the Customs Service are trying to unravel the story. One senior member of the task force recently described the task as "quite frankly beyond our physical, budgetary or intellectual resources."

A joint investigation by the Financial Times and ABC News/Nightline, drawing on interviews with US government officials, former ISC executives and other



James Guerin, centre of growing international arms scandal

sources, has established that:

● The Central Intelligence Agency (CIA) had detailed knowledge of regular, illegal shipments between 1984 and 1988 from the US to South Africa. The shipments consisted of US ballistic missile equipment.

● Federal officials say they have good reason to believe that some of the US ballistic missile technology sent to South Africa was shipped on to Baghdad, where it was used in President Saddam Hussein's missile projects.

● Senior British sources have confirmed that missile technology jointly developed by ISC and South Africa was offered for sale to other Gulf states. The sales, according to these sources, were blocked by Britain.

● Advanced radar-controlled anti-aircraft equipment shipped by ISC to South Africa found its way to Iraq in time for the Gulf war.

"Do you remember watching the anti-aircraft bursts from Baghdad on CNN that first night of the Allied bombing in January? That was some of the stuff which got to Iraq through the ISC-Gamma shipments to South Africa," said one US senior law enforcement official.

For the most part, however, Iraq appears to have made limited use during the Gulf War of sensitive equipment supplied to it. "Iraq appears to have got very little for its money" was one official's verdict.

● ISC cluster bomb technology was sent to Mr Carlos Cardoen, the Chilean arms dealer who is one of

Baghdad's biggest suppliers. The

transfer, in the form of blueprints, drawings and design technology, was carried to Santiago in suitcases in 1985.

● ISC and the Chilean secret police co-operated to build a cluster bomb factory in Santiago. The blueprints for this factory were then sold to Iraq by Mr Cardoen. ISC also shipped cluster bomb fuses to South Africa from where they were shipped on to Iraq, by way of Chile.

One of the curious aspects of this clandestine trade is that South Africa and Israel, Iraq's arch enemy in the Middle East, have a growing relationship which includes a weapons exchange programme.

US officials explain South Africa's

James Guerin, linked to one of Britain's biggest corporate scandals, was at the centre of an arms-trafficking ring a joint Financial Times/ABC Nightline has discovered. Alan Friedman, Lionel Barber, Tom Flannery and Eric Reguly report from Washington.

parallel trade with Iraq primarily as means for Pretoria to earn foreign exchange in the 1980s as it struggled to overcome a debt crisis and economic sanctions.

ISC's tangled relationship with US intelligence can be traced back to 1974 when Mr Guerin, working with the National Security Agency (NSA), the electronic eavesdropping agency, set up a front company as part of a US-sponsored covert operation.

Known as Project X, the operation's purpose was to ship advanced



'Advanced radar-controlled anti-aircraft equipment shipped by Mr Guerin's company to South Africa found its way to Iraq in time for the Gulf war'

electronic sensors, optics and related equipment to South Africa - without the normal export

licences - in an intelligence venture to supply listening posts to track Soviet submarines off the Cape of Good Hope.

Mr Guerin and the NSA set up a front company or "cut out" that gave the government "plausible deniability" - meaning that if the operation ever came to light the US government could offer a credible denial of involvement. The front company's name was Gamma Systems Associates.

The FBI later discovered that Gamma was a "mail and phone drop" at JFK Airport in New York. It was literally an address to which ISC equipment could be sent before being shipped with false descriptions aboard airliners bound for South Africa.

Gamma continued to operate as a sanctioned intelligence venture until 1977, when the newly installed Administration of President Jimmy Carter decided to call a halt to many clandestine operations. He also placed an embargo on US ship-

ments of militarily useful technology to South Africa.

According to US officials, Gamma continued to ship electronics to South Africa for ISC in the early 1980s. This occurred, according to former senior Reagan Administration officials, in 1982-83, when South Africa began to develop a

long-range ballistic missile capable of carrying a nuclear warhead, scouring the world for key components and testing equipment.

By then Mr Guerin had developed strong ties with Barlow Rand, the South African group that in the

1970s had lent him \$2m to keep his company afloat.

Then in 1984 Mr Guerin approached the CIA and offered to act as an "eyes and ears" for the Agency. It was about this time that shipments (at times on a weekly basis) of sensitive equipment for long-range ballistic missiles began flowing to South Africa along a route through Gamma identical to the original intelligence channel.

Customers included Armscor, the South African government's main defence firm, and private companies

in South Africa. Armscor yesterday refused to comment.

Court documents which include bills of lading, receipts and invoices as well as itemised shipping papers clearly label the items as not to be exported from the US without a licence.

The shipments included telemetry tracking antennae, which follow

missiles in flight and pick up data such as fuel consumption, velocity and gravitational forces. Other

items include gyroscopic equipment used for the guidance systems of ballistic missiles.

Among the most sensitive equipment shipped were photo-imaging film readers, necessary to determine the performance of missiles.

A former high-ranking US intelligence official with electronics expertise said the antennae and film reader, used together, would form the "backbone" of a system to develop medium-range missiles.

Some equipment could have been sold legally to South Africa under the umbrella of "dual-use" technology with both civilian and military applications. But most of the items exported by ISC were shipped without an export licence and in violation of the US embargo. ISC's sales abroad also violated the Arms Control Act which requires State Department approval of such munitions exports.

Throughout the critical period of

illegal sales - from 1984 until November 1988 - ISC executives travelled regularly to South Africa to supervise the transactions.

Among the key ISC executives involved was Mr Robert Clyde Ivy, an electrical engineer and missile expert who was recruited by Mr Guerin while a consultant for Armscor in South Africa in 1977.

Several former ISC executives, including Mr Ivy, are preparing a "CIA defence" in which they will use the company's relationship with the intelligence services as a factor which justifies their activities. A similar defence is being prepared by General Manuel Noriega, the deposed Panamanian leader about to be tried for drug smuggling.

Law enforcement officials say that the mere existence of a CIA relationship would not mitigate the crime of illegal exports, but the larger question remains why the CIA would fail to halt such illegal shipments.

According to US officials who insist on anonymity, at no time did the CIA ever seek to halt the shipments or turn over its information to the FBI or other law enforcement agencies. Mr William von Raab, former Commissioner of Customs, questions this arrangement since it raises issues about the CIA's accountability and whether the agency in some sense colluded in ISC's ventures.

AMERICAN NEWS

US recession nearly over say business economists

By Michael Prowse in Washington

THE US recession is nearly over, claimed a group of US business economists yesterday, as figures from the Commerce Department showed an encouraging 2.9 per cent rise in orders for durable manufactured goods last month, the first increase since December.

The report, by the National Association of Business Economists, showed that more than 70 per cent of 58 professional economists polled in early May - said the economy had already hit bottom or would do so by the end of June. However, more than a quarter did not expect the recession to end until the third quarter of this year or later.

The poll showed business economists united in expecting a slower than normal recovery from recession. The association's median forecast indicated growth at an annual rate of 2 to 3 per cent during the second half of this year and early 1992. This compares with an average growth rate of about 6 per cent in the aftermath of previous post-1945 recessions.

The rise in orders for durable goods follows other mildly encouraging signs, including a

rise in retail sales in recent months, slightly increased activity in the housing market and the first hints that manufacturing production could be stabilising.

However, although orders figures for last month exceeded expectations in financial markets, such numbers for April are notoriously volatile. The increase last month failed to make good a 4.5 per cent drop in March and left orders 7.4 per cent lower than at this time last year.

The orders figures are attracting particular attention because they provide early warning of trends in capital spending. Some analysts have speculated that a decline in industrial investment, which slumped in the first quarter, could provide a second leg to the recession.

Mr Alan Greenspan, Federal Reserve chairman, cited weak March orders figures as a justification for the most recent cut in interest rates. He had said this week that the first sign of an economic turnaround would "show up in the order books of the major materials producers."

More than half the April

increase in orders reflected increased demand for electronic components. Orders rose in all main industrial sectors except transportation, which fell by 4.5 per cent. Orders for non-defence capital goods (excluding the volatile aircraft sector) - which analysts regard as the single best guide to civilian investment trends - rose 3.5 per cent but remained more than 5 per cent below the level of a year ago.

"The business economists' confidence that the US economy will soon revive is shared by Bush Administration officials. In recent days, both Mr Robert Mosbacher, Commerce Secretary, and Mr Richard Darman, Budget Director, have claimed a turnaround is under way."

Some economists, however, remain sceptical. Mr Philip Braverman, chief economist at DKB Securities in New York, said he saw no reliable evidence that the recession has about to end. He expects levels of personal and corporate debt unrepaid in recent decades to prevent recovery before the final quarter of this year at the earliest.



GENERAL Colin Powell, chairman of the US joint chiefs of staff and the country's senior military officer, has been reappointed to a second two-year term, in a spite of recent reports that he had initial reservations about the military strategy which President Bush adopted in the Gulf crisis.

He and Mr Bush (left) are pictured above as the president announced Gen Powell's reappointment.

A new book, *The Commanders*, by Mr Bob Woodward of the Washington Post and heavily reliant on interviews with the general, reports the general as having favoured a strategy of containing Iraq, before the decision was taken last autumn to double the size of US forces in the Gulf.

Both Mr Bush and Gen Powell yesterday dismissed talk of any differences, though the president admitted that the general had set out the risks and was not rushing to commit troops to battle.

The expected reappointment of Gen Powell also ends what was always highly unlikely speculation that Mr Bush might choose him as his electoral running-mate next year in place of Vice-President Dan Quayle.

Congressional votes advance plans for bank liberalisation

By Peter Riddell, US Editor, in Washington

PROPOSALS to allow US

banks to expand both geographically and into new activities have won the backing of a House of Representatives committee, though they face more legislative hurdles over the next few months.

The financial institutions sub-committee of the House Banking Committee has approved this week much more of the Bush administration's plan for a radical overhaul of the US banking structure than was widely expected a few weeks ago.

In particular, the sub-committee agreed to allow banks to open nationwide branch networks. At present, bank holding companies have to set up separately capitalised subsidiaries in each state. An amendment to make inter-state branch banking subject to approval by individual states was defeated by 24 to 12.

Both the Treasury and federal regulators believe that nationwide branches are the key to raising the efficiency and profitability of US banks.

ing, while leading to mergers among the 12,300 US banks.

The sub-committee has also approved proposals to allow banks to affiliate with securities firms, rejecting proposals from the securities industry which would have prevented securities affiliates from offering credit and investment banking services to the same customers. However, various restrictions were imposed to protect customers and limit the ability of banks to become involved in insurance.

On the other hand, members approved by one vote an amendment that would prevent such expansion unless banks meet standards of community investment by showing that they are satisfying local credit needs for housing and business.

These victories for the Treasury have been only partially offset by a decision to defer action on its call for an overhaul and simplification of the complex agencies which regulate banks (in part also opposed by the Federal

Reserve). This deferral is via the establishment of a task force to look at supervisory reorganisation.

Administration proposals to limit the number of accounts in any one bank to be protected by federal deposit insurance have also been rejected, as has the discretionary power to reimburse uninsured depositors in failed banks under the too-big-to-fail doctrine.

Moreover, Treasury proposals to allow commercial groups to acquire banks look unlikely to be approved this year.

Many of these proposals may be further amended in later stages of consideration by the House or in parallel debates in the Senate, though the latter has been more sympathetic to calls for comprehensive banking reform.

For all that, the prospects for wider reform have been advanced in recent weeks, despite earlier attempts by some Democratic leaders in the House to limit legislation this year to recapitalising the bank deposit insurance fund.

Falklands' relations with mainland raised

Argentine envoy calls for links

By Gary Mead

THE ARGENTINE ambassador to Britain, Mr Mario Cámpora, yesterday called for restoration of direct links between Argentina and the Falkland Islands in the South Atlantic. Sovereignty over the islands is still disputed by Britain and Argentina, which fought a war on the issue in April-June 1982.

At a meeting of the Anglo-Argentine society in London yesterday, Mr Cámpora expressed pleasure at the restoration last year of UK-Argentine diplomatic relations, but he described as "unfortunate" that "no progress has been possible in the relations between the islands and the

Argentine mainland."

The ambassador added: "We have consistently made clear our will to rebuild the bridges but the response so far has been disappointing. I believe it is time - indeed long overdue - to find a new spirit."

President Carlos Menem, when he took office in Argentina in July 1989, agreed to place the dispute about sovereignty over the Falklands under a diplomatic "umbrella" - to give it a lower priority in Argentine foreign policy. In March this year, relatives of Argentine war dead buried on the islands were allowed a one-day visit to the Falklands.

Mr Cámpora's remarks yesterday appear to raise the matter in less diplomatic language than has been so recently. He said: "Isolation and intransigence help no one. It is all the more regrettable when our efforts are ignored, or animosity is the only answer."

This public implication that British diplomacy has rebuffed Argentine efforts at restoring direct links with the Falklands, which enjoyed a regular air link with Argentina before the 1982 conflict, will please Falklanders but dismay those hoping that the matter was still low on the Argentine diplomatic agenda.

The bloodless military coup last December in the former Dutch colony, on the north-east coast of South America with a population of 400,000, was followed by an interim government, headed by Mr Johan Kragg.

Army officers had charged that Mr Ramsewak Shankar, former president, had publicly insulted Mr Desi Bouterse, Surinam's military strongman.

Salvador talks for Venezuela

VENEZUELA is to be host for the next round of peace talks between the government of El Salvador and the central American country's left-wing rebels, the FMLN, writes Joe Mann in Caracas.

The negotiations will deal with a possible cease-fire in the conflict that has cost tens of thousands of lives in El Salvador over a decade.

There has been no announcement in Venezuela of a date, but the talks are expected within a few weeks. FMLN representatives are reported to include both political leaders and a rare appearance of commanders from the field.

Surinam votes in army shadow

THE ARMY in Surinam is expected to continue exercising strong influence over government, regardless of the outcome of national elections to be held tomorrow, writes Camille James in Kingston.

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Washington to consult western allies on aid for Moscow

US wary over Soviet reforms

By Peter Riddell

THE BUSH administration is considering how the US and other western countries can assist Soviet economic reform, though it is unwilling to offer help until President Mikhail Gorbachev has firmly committed himself to a credible reform programme.

Mr Bush yesterday took a deliberate non-committal line, saying "all options are open." He said he wished to talk to other western leaders "to see what we can do to help genuine reform in the Soviet Union."

The president stressed the US desire to move forward, but also its concerns about practicalities and the Soviet Union's creditworthiness.

In Congressional testimony yesterday, Mr James Baker, Secretary of State, said the US "continues to study various

ways in which we can assist Soviet economic reform, but the usefulness of our efforts still depends, above all else, on the choices that the Soviets themselves make."

Senior US officials, in the State Department and the White House, have held talks this week with Mr Grigory Yavlinsky, who has prepared an economic assistance and reform proposal, known as The Grand Bargain, with a group of prominent Harvard professors.

These include Mr Robert Blackwell, until last year senior Soviet and European adviser on the National Security Council staff.

A Soviet delegation - headed by Mr Yevgeny Primakov, senior economic adviser to Mr Gorbachev, and Mr Vladimir Shcherbakov, a dep-

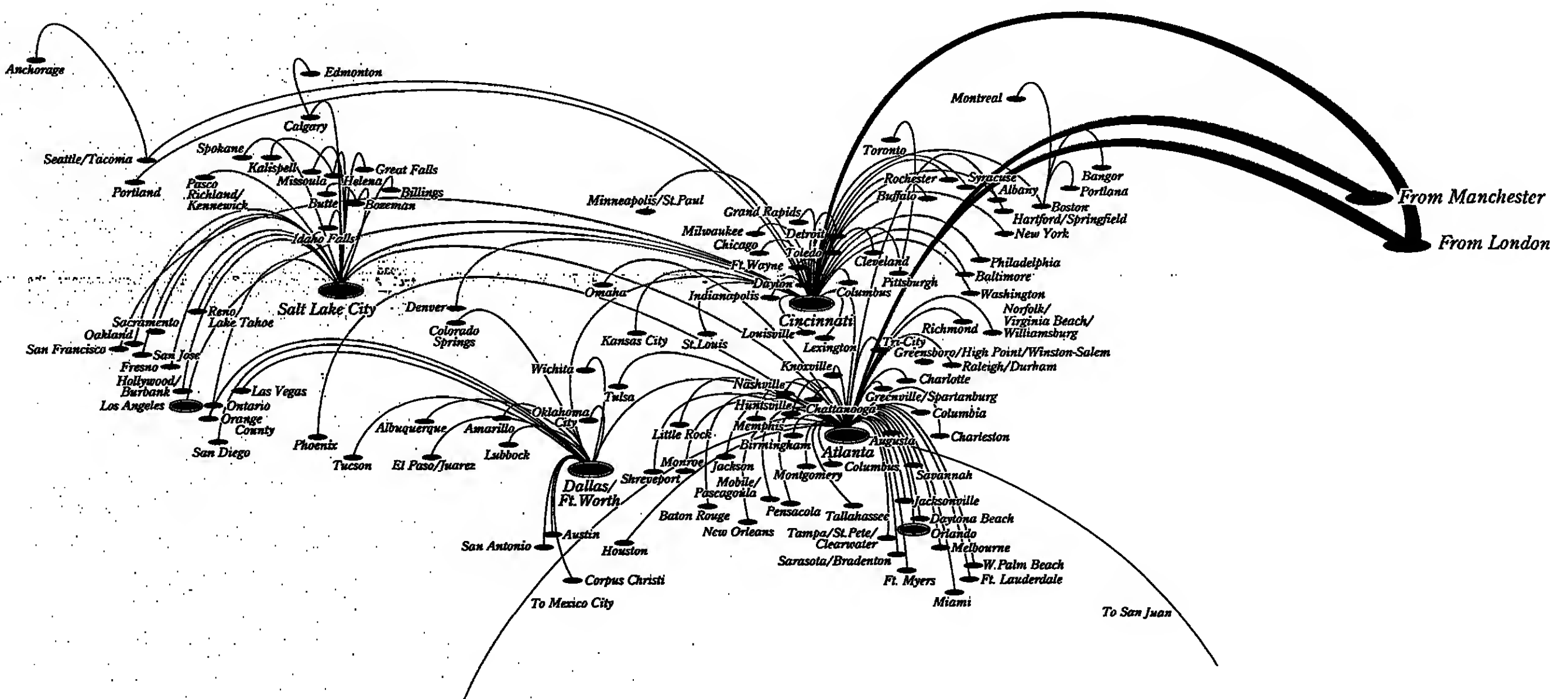
uty premier - will visit Washington next week to discuss what Mr Bush has described as Mr Gorbachev's "new ideas on economic reform."

The most likely immediate US response is the provision of technical assistance, rather than large-scale financial aid, apart from farm credits already under consideration.

The Bush administration wants to assess the views of the Soviet delegation before it decides what can be done and whether Mr Gorbachev should attend the annual summit of the Group of Seven heads of government in London in mid-July. Mr Robert Zoellick, one of the main architects of US Soviet policy and the main US sherpa in preparing for the summit, met Mr Yavlinsky this week.

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UK NEWS

Major under fire over delayed tank order

By David White, Defence Correspondent

SIR DAVID Plastow, chairman of Vickers, the UK engineering group, has told the prime minister, Mr John Major, that Britain has made itself the "laughing-stock of the Middle East" by its indecision about ordering a new tank for the British Army.

He has warned that if no decision was made soon on its new Challenger 2 tank Vickers would have to disband the engineering team working on the project.

Although ministers are thought to be agreed that the Challenger 2 should be chosen, Vickers has become increasingly irritated by what one senior executive called "dithering" by the government and the impact it has had on export prospects.

Vickers hopes to sell tanks to Saudi Arabia, Oman and the United Arab

Emirates, and in the longer term to Kuwait, but says potential clients are waiting for British endorsement of the Challenger 2.

Germany is understood, meanwhile, to have turned down a request by the UK ministry of defence for the lease of Leopard 2 tanks as an interim replacement for some of the older tanks in the fleet of the British Army of the Rhine.

The Bonn defence ministry replied that it would only agree to the lease proposal if Britain opted for the Leopard 2, in an improved version, as its new-generation battle tank.

Both the Germans and the other main competitors for the British contract, General Dynamics of the US, now regard this option as highly unlikely.

They believe that the prize heaped by senior British officials, including the

prime minister, on the performance of the current Challenger 1 in the Gulf points to a certain decision in favour of its Challenger 2 successor.

The UK approach for the lease of tanks would have involved between 50 and 100 tanks to equip two three-squadron regiments. These regiments held 42 tanks each, but some spare tanks would be required. Despite the negative German response, further discussions are thought possible.

An announcement on the British tank procurement decision is not expected until mid-June. This would be nine months after Vickers' completion of a "demonstration phase" for the Challenger 2, under an MoD contract.

It is thought the government wanted to hold back an announcement until after a Nato defence ministers' meeting

in Brussels next week, which will discuss plans for a British-led rapid reaction force in Europe.

The initial contract is expected to be for as few as 127 tanks, less than a quarter of the quantity originally expected, with further batches of 200 tanks later on.

A contract of this size would be worth about an initial \$500m to Vickers. General Dynamics declined to make a "conforming bid" in April but wrote to Mr Major offering to hold its previous unit price for the M1A3 Abrams tank and to give British industrial partners a significant share of export business for the Abrams.

Both Germany's Krauss-Maffei and France's GIAT Industries, which is proposing its new Leclerc tank, made fresh bids.

Shrinking deficit fails to allay fears over trade

AS fewer cargo ships unload foreign goods on Britain's quaysides, it has become more fashionable to say that the balance of payments is no longer a problem.

Like many fashions, this belief may not stand the test of time. Embedded in yesterday's trade figures was evidence that imports are rising again, while exports have been flat since the autumn and are set to remain low.

The deficit shrank from £20bn in 1989 to £13bn in 1990. Yesterday's announcement of an April current account deficit of £330m is within the Treasury's forecast of £25bn this year.

The opposition Labour party was quick to complain that Britain was slipping into the red. Meanwhile, Mr Mervyn King, chief economist at the Bank of England, says there is little agreement as to how much a "problem" the balance of payments is.

Some economists say a deficit simply means a country is spending more than it earns, which makes people consume and borrow on optimistic assumptions about future output growth.

They point out that countries with large surpluses - Germany and Japan - have seen them dwindle since 1989 just as those with deficits - the US and the UK - have seen them shrink.

"It is a private sector problem," says Mr Michael Heseltine, secretary, to put forward schemes to revamp squallid housing and industrial estates.

The 10 best schemes will be chosen by the end of the year to share £70m of government money on offer for 1992-93, but over £250m is expected to be made available for projects over the next five years.

The initiative, announced by Mr Heseltine at a London press conference, amounts to a big shake-up in the way cash is channelled for urban regeneration. No new money is being made available, but the initiative, called City Challenge, will seek to target money at specific projects rather than spread it thinly over a variety of schemes.

The 15 councils invited to take part are Barnsley, Birmingham, Bradford, Bristol, Liverpool, Manchester, Middlesbrough, Newcastle upon Tyne, Nottingham, Salford, Sheffield, Tower Hamlets and Walsingham in London, Wirral, and Wolverhampton.

Mr Heseltine said: "We now intend to enhance the effectiveness of our expenditure in urban areas in England... the new initiative will achieve this and improve the quality of our cities."

speeded a downturn into a recession.

There are also growing fears that continuing slack export volumes, the high exchange rate and a slowdown in Germany will impede the UK recovery.

Professor Wynne Godley, of King's College, Cambridge, argues that failure to balance imports with exports "drives down domestic income and output to the levels at which trade does match."

Applying Sherlock Holmes's principle that it is a mistake to theorise without data, we cannot say such a convergence is about to happen. But the latest statistics do suggest that a deficit could grow to haunt the government just when it thought the problem had been obscured by plunging import volumes.

They indicate that the shrinking trade gap is the consequence of low domestic demand rather than supply-side improvements, and is therefore cyclical, not structural.

Economic recovery has been forecast for the end of this year, notably this week by Mr John Major. This has raised the worry that the upturn in consumer demand would produce a ballooning deficit.

The Treasury describes non-oil export volumes as "flat since autumn", with any improvement in the account produced by dropping imports.

The trend in export growth is down to an annual rate of under 1 per cent from 6.5 per cent in the third quarter of last year. As from April, import volumes stopped falling.

On the evidence of last few months, the underlying trade deficit is now stuck at between £1.1bn and £1.3bn a month. Economists at Greenwell Montagu, the investment bank, say that "the significant improvement recorded in 1990 will not be repeated in 1991." In the first quarter if this year, exports (excluding aircraft) were actually 1 per cent lower than at the end of last year, they note.

Barclays Bank says the marked slowdown in export growth helped transform the downturn into "outright recession." What happened to cause this collapse?

According to Mr Chris Dilow, of the Nomura Research Institute, exporters were hit by the recession, which meant cutbacks at home, then there was the gathering of recessionary forces outside Europe, which sharply reduced exports to the US - by 19 per cent in the three months to April. The

UK Trade

3 month moving average in volume (incl. oil and services)



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wage costs dropped 55 per cent, while the UK's rose by 17.8 per cent.

There is evidence that the UK switched to European markets. Export volumes to the EC rose 10 per cent in the three months to March, from zero in the three months before that. But with European markets set to weaken, few economists predict this trend to continue.

Rachel Johnson

Councils told to compete for inner city financing

By Richard Evans

LOCAL authorities representing some of England's most depressed inner city areas were yesterday urged by the government to bid competitively for funds to finance regeneration projects.

The councils are being asked by Mr Michael Heseltine, secretary, to put forward schemes to revamp squallid housing and industrial estates.

The 10 best schemes will be chosen by the end of the year to share £70m of government money on offer for 1992-93, but over £250m is expected to be made available for projects over the next five years.

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Mr Heseltine said: "We now intend to enhance the effectiveness of our expenditure in urban areas in England... the new initiative will achieve this and improve the quality of our cities."

Bank governor weathers storm on pay

MR ROBIN Leigh-Pemberton, the governor of the Bank of England, who found himself yesterday at the centre of a furore over his 17 per cent pay rise last year, might be forgiven for feeling a little aggrieved, writes Neil Buckley.

He took a pay cut from £93,568 to £72,545, or 27 per cent, when he moved to the Bank of England in 1983 from his post as chairman of National Westminster Bank. Had he stayed put, his salary last year would have been £231,225, more than twice what he earned as governor - even after his hefty pay rise.

His "emoluments, excluding pension contributions" was £155,019 last year - up from £132,558 in 1989.

Mr Leigh-Pemberton was unrepentant yesterday about

the pay rise, which has attracted criticism given that the Bank is calling for pay restraint. "I practice what I preach. Look at the figures for the last three years," he said.

In the previous two years, his pay rises had been more frugal at 4.3 per cent and 3.9 per cent, well below the growth in average earnings in the UK. However, this was pre-empted by a 22.9 per cent leap in 1988-89, far outstripping the rise in average earnings of 7.8 per cent.

Mr Leigh-Pemberton's pay rises have exceeded the rise in average earnings in four of the last seven years. He is also one of the higher earners in British public service.

And while his pay is less than Mr Karl Otto Pohl, outgoing president of the German

Bundesbank, who is said to earn DM600,000 (£201,850), it is much more than that of Mr Alan Greenspan, chairman of the US Federal Reserve Board, who earns only \$125,100 (£72,300).

In comparison with many UK company chairmen and chief executives, however, the governor is a relative pauper. Sir Denis Henderson, chairman of ICI, earned £448,000 in 1990 (less than the £514,000 he earned 1989), while the chief executive of Prudential Corporation, Mr Mick Newmarch, made £543,678.

Many company chiefs' earnings are also boosted by share dividends. Mr David Sainsbury, deputy chairman of J. Sainsbury, had a salary of £220,000 in 1989 but picked up £20.6m in dividends.

The chief executive of Royal Insurance - which lost a staggering £17m in 1989 - saw his pay boosted by a comfortable 20 per cent, Ms Mowlam said.

Editorial comment, Page 18

Travel association axes top executives to reduce costs

By David Churchill, Leisure Industries Correspondent

THE Association of British Travel Agents (Abta) yesterday axed its director general and other senior management as part of a cost-cutting exercise following the failure of several travel companies earlier this year.

The decision on the redundancies, which are expected to save at least £500,000 a year, was taken by Abta's national council.

Those being made redundant include Mr David Epstein, Abta's director general, Mr Paddy Lewis, his deputy, and Mr David Hirst, director of public affairs.

Executive responsibility for Abta's affairs will now be in the hands of the part-time elected officers of the Association.

Backlogs at Abta's central London headquarters had been expected following its cash crisis earlier this year after the failure of several school tours holiday companies and the collapse of Exchange Travel, a leading travel agency.

The changes at Abta have also fueled speculation about a change in Abta's role under new legislation due next year.

The Department of Trade and Industry is due to publish within the next few weeks a consultative paper on how to implement the EC directive on package holiday travel. This calls for a consumer protection system to be in place by the end of 1992.

London carves up areas of North Sea for exploration

By Deborah Hargreaves

THE government yesterday awarded North Sea exploration acreage that could contain 60m barrels of oil or 18 trillion cubic feet of gas when it announced the results of its 12th offshore licensing round.

Mr John Wakeham, the energy secretary, announced the award of 74 exploration blocks after receiving the largest number of applications in 18 years. For the first time, the government carved up the deep-water region west of Shetland, where it awarded 6 blocks for exploration.

Some £5bn of investment is expected for the North Sea this year and seven projects have already been announced, he said. This compares with 18 projects last year at a total

investment of £2.5bn. Conoco, the oil arm of the DuPont chemical company, received the highest number of awards of 10 licenses covering 18 blocks. Tencor was the only current North Sea operator not to receive any acreage and British Petroleum did not figure prominently in the awards.

Six tranches of acreage were awarded in the frontier area to groups of leading oil companies. The first wells in this hostile, challenging environment could be sunk after three years when companies have completed geological surveys. After that, they can hold on to frontier blocks for another 6 years without drilling before relinquishing their right to it.

Notice of Partial Repayment

A\$50,000,000

FANMAC Overseas No.1 Limited

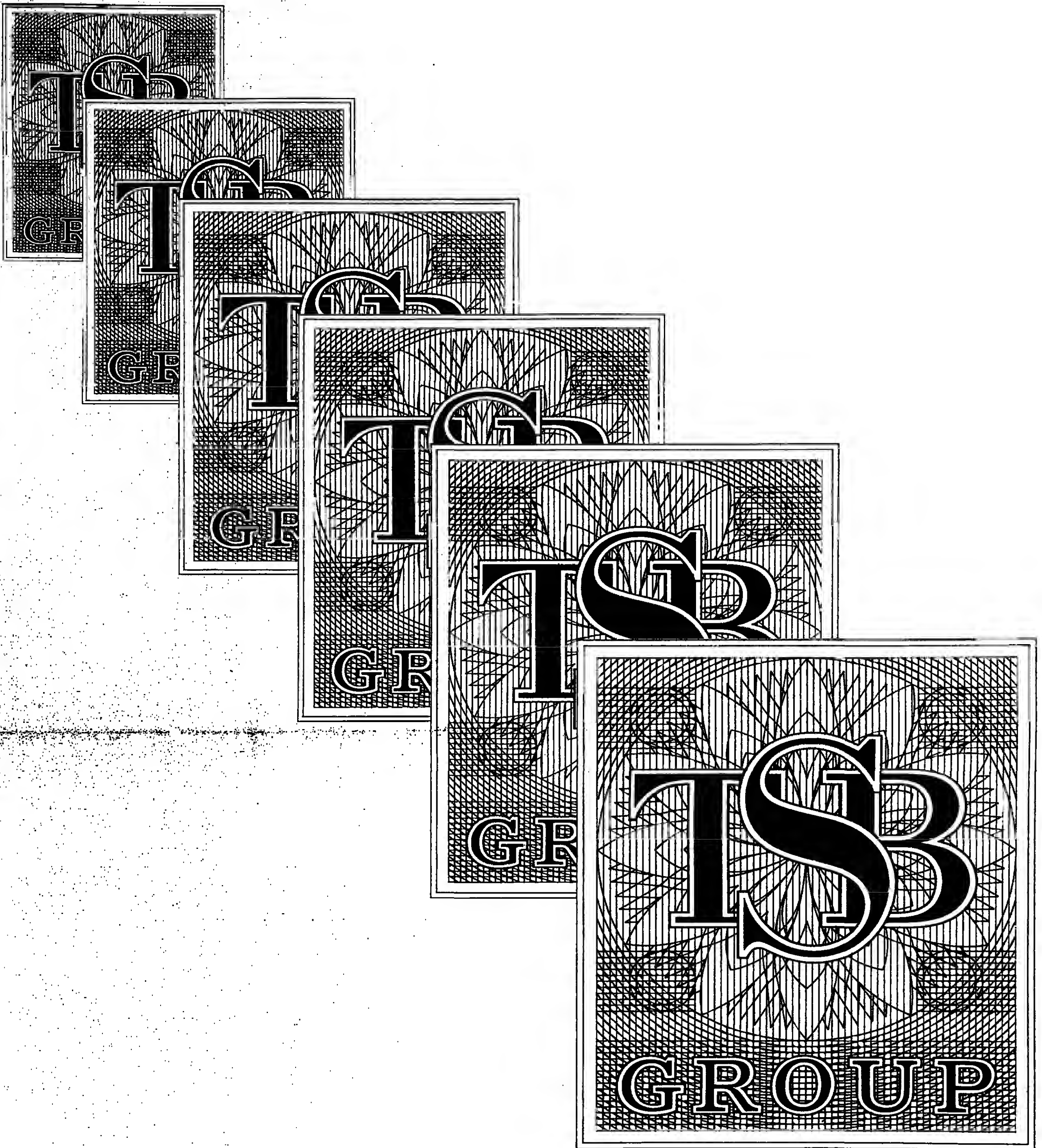
(Incorporated with limited liability in the state of New South Wales)

15% Bonds Due June 30, 1992

NOTICE IS GIVEN that in accordance with Condition 7(b) of the Terms and Conditions of the Bonds FANMAC Overseas No.1 Limited (the "issuer") will redeem A\$4,933,000 by partial repayment at 100.25 per cent of their principal amount on 30th June, 1991 (the "Redemption Date"), payment of principal and interest will be paid on 1st July, 1991 (the "Payment Date"), when interest on the Bonds will cease to accrue.

The serial numbers of the A\$1,000 Denomination Bonds drawn for the partial repayment are as follows:

24	1114	2037	3107	3885	4888	5906	7048	8114	8999	10345	11426	12289	13119	14122
25	1120	2076	3109	3915	4905	5902	7078	8130	8978	10396	11443	12286	13129	14132
26	1126	2082	3115	3921	4911	5908	7084	8136	8984	10402	11449	12292	13135	14138
27	1132	2088	3121	3927	4917	5914	7090	8142	8990	10408	11455	12298	13141	14144
28	1138	2094	3127	3933	4923	5920	7096	8148	8996	10414	11461	12304	13147	14150
29	1144	2100	3133	3939	4929	5926	7102	8154	9002	10420	11467	12310	13153	14156
30	1150	2106	3139	3945	4935	5932	7108	8160	9008	10426	11473	12316	13159	14162
31	1156	2112	3145	3951	4941	5938	7114	8166	9014	10432	11479	12322	13165	14168
32	1162	2118	3151	3957	4947	5944	7120	8172	9020	10438	11485	12328	13171	14174
33	1168	2124	3157	3963	4953	5950	7126	8178	9026	10444	11491	12334	13177	14180
34	1174	2130	3163	3969	4959	5956	7132	8184	9032	10450	11497	12340	13183	14186
35	1180	2136	3169	3975	4965	5962	7138	8190	9038	10456	11503	12346	13189	14192
36	1186	2142	3175	3981	4971	5968	7144	8196	9044	10462	11509	12352	13195	14198
37	1192	2148	3181	3987	4977	5974	7150	8202	9050	10468	11515	12358	13201	14204
38	1198	2154	3187	3993	4983	5980	7156	8208	9056	10474	11521	12364	13207	14210
39	1204	2160	3193	3999	4989	5986	7162	8214	9062	10480	11527	12370	13213	14216
40	1210	2166	3199	4005	4995	5992	7168	8220	9068	10486	11533	12376	13219	14222
41	1216	2172	3205	4011	5001	5998	7174	8226	9074	10492	11539	12382	13225	14228
42	1222	2178	3211	4017	5007	6004	7180	8232	9080	10498	11545	12388	13231	14234
43	1228	2184	3217	4023	5013	6010	7186	8238	9086	10504	11551	12394	13237	14240
44	1234	2190	3223	4029	5019	6016	7192	8244	9092	10510	11557	12400	13243	14246
45	1240	2196	3229	4035	5025	6022	7198	8250	9098	10516	11563	12406	13249	14252
46	1246	2202	3235	4041	5031	6028	7204	8256	9104	10522	11569	12412	13255	14258
47	1252	2208	3241	4047	5037	6034	7210	8262	9110	10528	11575	12418	13261	14264
48	1258	2214	3247	4053	5043	6040	7216	8268	9116	10534	11581	12424	13267	14270
49	1264	2220	3253	4059	5049	6046	7222	8274	9122	10540	11587	12430	13273	14276
50	1270	2226	3259	4065	5055	6052	7228	8280	9128	10546	11593	12436	13279	14282
51	1276	2232	3265	4071	5061	6058	7234	8286	9134	10552	11599	12442	13285	14288
52	1282	2238	3271	4077	5067	6064	7240	8292	9140	10558	11605	12448	13291	14294
53	1288	2244	3277	4083	5073	6070	7246	8298	9146	10564	11611	12454	13297	14300
54	1294	2250	3283	4089	5079	6076	7252	8304	9152	10570	11617	12460	13303	14306
55	1300	2256	3289	4095	5085	6082	7258	8310	9158	10576	11623	12466	13309	14312
56	1306	2262	3295	4101	5091	6088	7264	8316	9164	10582	11629	12472	13315	14318
57	1312	2268	3301	4107	5097	6094	7270	8322	9170	10588	11635	12478	13321	14324
58	1318	2274	3307	4113	5103	6100	7276	8328	9176	10594	11641	12484	13327	14330
59	1324	2280	3313	4119	5109	6106	7282	8334	9182	10600	11647	12490	13333	14336
60	1330	2286	3319	4125	5115	6112	7288	8340	9188	10606	11653	12496	13339	14342
61	1336	2292	3325	4131	5121	6118	7294	8346	9194	10612	11659	12502	13345	14348
62	1342	2298	3331	4137	5127	6124	7300	8352	9200	10618	11665	12508	13351	14354
63	1348	2304	3337	4143	5133	6130	7306	8358	9206	10624	11671	12514	13357	14360
64	1354	2310	3343	4149	5139	6136	7312	8364	9212	10630	11677	12520	13363	14366
65	1360	2316	3349	4155	5145	6142	7318	8370	9218	10636	11683	12526	13369	14372
66	1366	2322	3355	4161	5151	6148	7324	8376	9224	10642	11689	12532	13375	14378
67	1372	2328	3361	4167	5157	6154	7330	8382	9230	10648	11695	12538	13381	14384
68	1378	2334	3367	4173	5163	6160	7336	8388	9236	10654	11701	12544	13387	14390
69	1384	2340	3373	4179	5169	6166	7342	8394	9242	10660	11707	12550	13393	14396
70	1390	2346	3379	4185	5175	6172	7348	8400	9248	10666	11713	12556	13399	14402
71	1396	2352	3385	4191	5181	6178	7354	8406	9254	10672	11719	12562	13405	14408
72	1402	2358	3391	4197	5187	6184	7360	8412	9260	10678	11725	12568	13411	14414
73	1408	2364	3397	4203	5193	6190	7366	8418	9266	10684	11731	12574	13417	14420
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83	1468	2424	3457	4263	5253	6250	7426	8478	9326	10744	11791	12634	13477	14480
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88	1498	2454	3487	4293	5283	6280	7456	8508	9356	10774	11821	12664	13507	14510
89	1504	2460	3493	4299	5289	6286	7462	8514	9362	10780	11827	12670	13513	14516
90	1510	2466	3499	4305	5295	6292	7468	8520	9368	10786	11833	12676	13519	14522
91	1516	2472	3505	4311	5301	6298	7474	8526	9374	10792	11839	12682	13525	14528
92	1522	2478	3511	4317	5307	6304	7480	8532	9380	10798	11845	12688	13531	14534
93	1528	2484	3517	4323	5313	6310	7486	8538	9386	10804	11851	12694	13537	14540
94	1534	2490	3523	4329	5319	6316	7492	8544	9392	10810	11857	12700	13543	14546
95	1540	2496	3529	4335	5325	6322	7498	8550	9398	10816	11863	12706	13549	14552
96	1546	2502	3535	4341	5331	6328	7504	8556	9404	10822	11869	12712	13555	14558
97	1552	2508	3541	4347	5337	6334	7510	8562	9410	10828	11875	12718	13561	14564
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101	1576	2532	3565	4371	5361	6358	7534	8586	9434	10852	11899	12742	13585	14588
102	1582	2538	3571	4377	5367	6364	7540	8592	9440	10858	11905	12748	13591	14594
103	1588	2544	3577	4383	5373	6370	7546	8598	9446	10864	11911	12754	13597	14600
104	1594	2550	3583	4389	5379	6376	7552	8604	9452	10870	11917	12760	13603	14606
105	1600	2556	3589	4395	5385	6382	7558	8610	9458	10876	11923	12766	13609	14612
106	1606	2562	3595	4401	5391	6388	7564	8616	9464	10882	11929	12772	13615	14618
107	1612	2568	3601	4407	5397	6394	7570	8622	9470	10888	11935	12778	13621	14624
108	1618	2574	3607	4413	5403	6400	7576	8628	9476	10894	11941	12784	13627	14630
109	1624	2580	3613	4419	5409	6406	7582	8634	9482	10900	11947	12790	13633	14636
110	1630	2586	3619	4425	5415	6412	7588	8640	9488	10906	11953	12796	13639	14642
111	1636</													



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TSB: TSB Branch Banking; TSB Banking Services; TSB Trust Company. HILL SAMUEL: Hill Samuel Bank; Hill Samuel Financial Services; Hill Samuel Investment Management; Private Client Services. COMMERCIAL: Noble Lowndes; Swan National; Wescol.

UK NEWS

Rolls-Royce withdraws dismissal notices

By Michael Smith

ROLLS-ROYCE, the aerospace group, withdrew dismissal notices to 34,000 workers yesterday after threats of union legal action and widespread employee anger.

The company denied it had climbed down over the notices, which were sent out two weeks ago, saying they were a legal technicality to implement a six-month pay freeze.

The affair, however, is seen by industrial analysts as a public relations mistake which will do little to help the company in forthcoming negotiations over 6,000 job losses.

The withdrawal of the contract termination letters was part of a deal reached yesterday with unions, including the MSF general technical union which had threatened High Court action for alleged breach of contract.

As part of the deal, the MSF has withdrawn from all legal proceedings. Rolls-Royce agreed to enter early negotiations with unions on its proposed pay freeze which it said it still wanted to implement.

When Rolls-Royce sent out the dismissal letters it said it had no wish to see workers leave the company as a result. The contracts would be replaced by similar ones, varied to remove entitlements for pay increments rewarding service, age and skills.

The MSF challenged that a breach of contract had occurred because of a failure to consult it and other unions properly.

Rolls-Royce believes it has acted legally in sending out the letters. "The letters were a means of instituting a total pay freeze. If we are able to achieve that through negotiation, the letters become unnecessary," a spokesman said.

The company will today meet shop steward representatives of both blue and white-collar workers.

The main issue at today's meeting is likely to be job losses which could lead to the first compulsory redundancies for 20 years at the company.

Concern grows at profits of privatised monopolies

By Charles Leadbeater and Clare Pearson

A RECORD \$30m pre-tax profit at BT, the national telecommunications operator, and the prospect of strong profits from water companies yesterday threatened to provoke growing controversy over whether privatised monopolies are being regulated tightly enough.

The 14 per cent increase in pre-tax profits from BT, formerly British Telecom, was greeted by opposition Labour MPs and consumer groups with calls for further price reductions in areas where BT has a monopoly and more competition.

The row over BT's profits will put added pressure on Sir Bryan Carsberg, the director general of OfTel, the telecommunications industry regulator, to take a tougher line with BT over the prices it will charge for other competing operators to gain access to its network.

Separately, Mr Ian Byatt, director general of the Office of Water Services, became the latest privatised industry watchdog to flex his muscles when he issued a strongly worded warning to water companies, responsible for distribution and supply, not to deliver high profits and high returns to shareholders at the expense of customers.

Mr Byatt cautioned the 10 companies in a letter which was put in the post just as Yorkshire Water kicked off



Byatt: warning on profits

what seems certain to be a bumper season of water industry annual results with a 12.6 per cent increase in pre-tax profits in northern England.

He said companies could expect questions from customers and regulators if their dividends looked excessive.

This year's charge increases in the water industry were based on last November's retail price index, which allowed increases averaging about 15 per cent, while the slowdown in the economy has reduced costs.

Mr Byatt's intervention

comes only a month after the Office of Gas Supply successfully completed a long campaign to press British Gas to accept a five-year agreement which will limit price rise to households to less than the rate of inflation.

BT's record profits, which were achieved mainly through cost cutting in the face of falling call volumes, prompted the Telecom Users Association to call for further cuts in tariffs so that customers should benefit from investment to modernise the telecommunications network.

The TUA called for OfTel to be particularly vigilant when negotiating later this year over BT's freedom to vary prices within an overall formula designed to limit price increase to the retail price index less 6.25 per cent.

BT responded to the criticisms by arguing that its quality of service had reached new highs, with only one call in 200 failing due to a fault on the line. It said cheap rate local calls were 50 per cent cheaper than they were in 1981 after inflation was taken into account.

Meanwhile, the National Communications Union, the main trade union at BT, said it was seeking an urgent meeting with the company to discuss the loss of almost 19,000 jobs last year, a far higher figure than BT had predicted.

BRITAIN IN BRIEF



Thorn to close plant in South Wales

Thorn KMI is to close its light-bulb factory in Merthyr Tydfil, South Wales, within the next 12 months with the loss of 500 jobs.

In what would amount to a twin blow to the town, Hoover, its largest manufacturing employer, is expected to lay off more than 300 people today after a vote in favour of strike action on June 3.

Merthyr already suffers from a 13.7 per cent unemployment rate compared with 8.5 per cent for Wales as a whole.

The closure of the 44-year-old plant, which at present produces 60m bulbs a year, should be completed by midsummer 1992.

Tories accused over Europe

Mr Paddy Ashdown, Liberal Democrat leader, has accused the Conservative government of avoiding a debate on European integration through fear of bringing Mrs Margaret Thatcher back into the Tory fold.

Speaking in Yeovil, south-west England, Mr Ashdown said the present prime minister's biggest mistake had been to "duck" debate on European monetary union (Emu).

"The most important decisions about Britain's future are being taken with almost no public discussion," he said. He believed Conservatives feared Europe was the issue that would bring Mrs Thatcher back into mainstream politics. "That is why John Major is running scared from any public debate about our future role in Europe."



Staff of Harrods, the Knightsbridge department store in London, protest outside the main entrance yesterday. The lunchtime protest was later halted by shop stewards of Usdaw, the shopworkers' union, who warned the demonstrators that involvement could make them liable to dismissal. The action was taken over Harrods' imposition of a pay freeze. Usdaw said it was considering holding a strike ballot after the management had turned down its proposals for pay increases later in the year.

PO says strike largely ignored

A strike call by leaders of the Union of Communication Workers at selected main post offices and over the next two days was "largely ignored" by the union's members on its first day, according to Post Office management.

The UCU's action was called after pay talks broke down: union negotiators have rejected a 7 per cent offer. An all-out four-day national strike from Wednesday next week has been called for all 12,000 UCU members employed at crown post offices.

The union itself said over 80 per cent of the membership had stayed away from work but some post offices had been kept open by supervisors and a minimum number of counter staff. "In Glasgow, for example, 305 members out of 330 were on strike. We are very pleased," said the UCU. Main post offices in Glasgow in Scotland, Birmingham in the Midlands and north and west London were targeted for yesterday's action.

Co-operation in EC welcomed

A new mood of co-operation in the European Community had replaced the exacerbation of differences between member countries, according to Mr Tristan Garel-Jones, the foreign office minister.

Speaking in a debate on Franco-British relations Mr Garel-Jones said EC countries were seeking to accommodate each other and were finding common ground as well as fighting for national interests.

Labour attacks directors' pay

Ms Marjorie Mowlem, opposition Labour spokeswoman on financial affairs, has attacked the size of pay rises which directors have awarded themselves.

She said the "directors' bonanza" bore no relation to the benefits received by shareholders but merely reflected the "insatiable appetite of corporate greed."

1,000-year-old body found

Experts are examining the remains of a 1,000-year-old human body uncovered on the banks of the River Thames. Archaeologists made their find during a routine excavation on the site of a new office development. The discovery of the well-preserved young person's body near Southwark Bridge in the City of London is thought to be unique.

FT cuts salaries

The Financial Times has cut the salaries of a group of male print workers at its London Docklands plant by 13.9 per cent after being told that it could face an equal pay claim from women workers doing similar jobs for less money.

The cut to a salary of £21,100 for 26 assistant press and publishing technicians has been compensated by a payment of £2,850 this month and a future "buy-out" of the higher salary of £6,412.

Prince unveils plans for square

THE Prince of Wales yesterday unveiled the long-awaited plans for an £800m redevelopment of Paternoster Square, the site immediately to the north of St Paul's Cathedral in the City of London, writes Vanessa Houlder, Property Correspondent.

The site has been the subject of fierce controversy after previous modernist plans were dropped as a result of criticism from Prince Charles.

The latest designs are neo-classical in style, and have attempted to restore much of the historic pattern of streets and lanes that existed before

the area's destruction during Second World War bombings by German aircraft.

The designs contrast sharply with the modernist proposals put forward in an international architecture competition organised in 1987. The winning design, by Arup Associates, was shelved after Prince Charles, in a Mansion House speech, described the competition as "deeply depressing" and "demoralising."

The scheme comprises over 80 shops and restaurants and 630,000 sq ft of office space in a traffic-free area around a central square. It restores the

pedestrian access into Paternoster Square to ground level.

The development will be carried out by Paternoster Square Associates, which is a partnership between Graycoat, a UK developer, Park Tower Group of New York and an affiliate of Mitsubishi Estate Company, a Tokyo-based developer. The partnership bought the site in November 1989 for £16m from the Venezuelan Organisation Diego Cisneros.

Work on the project is expected to begin after the planning stage, which is expected to take nine to 12 months. Background, Page 17

DAI-ICHI KANGYO BANK

DKB ECONOMIC REPORT

May 1991: Vol. 21, No. 5

Growth of Japanese Economy Slowing

In contrast to the increasingly pleasant weather as we move into May, clouds are gathering over the Japanese economy.

Expansion May be Peaking
At a press conference in early April, Bank of Japan Governor Yasuhiro Miwa stated that the Japanese economy "remains firm, though the pace of growth has been slowing since last fall." It is fair to say that overall economic activity remains at high levels.

Japan's GNP grew a year-to-year 4.9% in real terms in the October-December period. In addition, industrial production increased a year-to-year 7.2% in February. Accordingly, capacity utilization rates remain at high levels, while inventories of finished goods are at low levels. The ratio of effective job openings to applicants is also high (see figure).

Thus, the current level of economic activity poses no problem. However, a look at the trends—that is to say, the pace of expansion—elicits concern. The trends in the capacity utilization rates, inventory levels and the job demand-supply ratio have all changed recently. The coincident indicator of the composite index,* a yardstick for overall economic activity, began losing momentum at the end of last year and turned downward (see figure).

Rising Interest Rates and Prices
The economic slowdown can be attributed to the following factors:

First, personal consumption has been weakening since last fall. Unusually mild fall and winter curbed sales of clothes and heaters. Higher interest rates and rising prices have also put a damper on personal consumption. According to the Management and Coordination Agency's Family Budget Survey, per-household consumption rose on a year-to-year basis for the first time in four months in January, but then by only 0.1%. New passenger car registrations decreased 1.9% in March from a year earlier.

Second, housing construction is declining. New housing starts decreased

12.5% in February compared with a year ago, due mainly to narrowing profits on building rental housing in reaction to higher interest rates, and because more houses for sale remain unsold. Against this backdrop, it will be difficult for housing construction to maintain the high levels of recent years.

Third, corporate earnings are beginning to decline after two years of tight monetary policy.

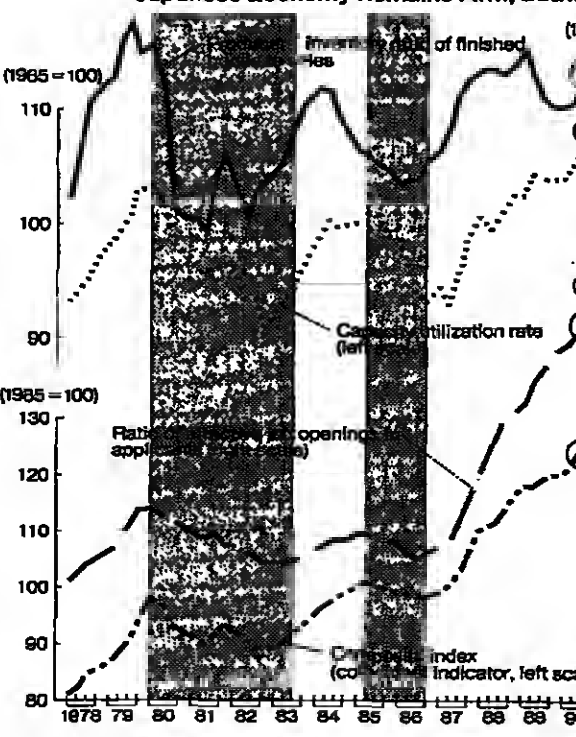
Adjustments in Domestic Economy Will Continue
The Japanese economy has begun showing signs of adjustment.

With regard to personal consumption, increases in workers' bonuses may be somewhat less than in previous years because many companies are believed to have suffered a decline in earnings in the fiscal year just ended in March. However, it can be concluded that the income situation remains favorable in light of the relatively good results produced in the recent labor-management wage negotiations.** But prices will likely remain pegged at high levels until the middle of this fiscal year because (1) labor costs will remain high reflecting the persistent labor shortage, and (2) companies will continue to pass higher costs, including higher interest payments, on to product and service prices. Consumption is therefore expected to grow only moderately in real terms over the near term.

The outlook for housing investment is also bleak. Construction costs, including labor expenses, are expected to continue rising. New housing starts are expected to decline, after having exceeded high construction level of 1.6 million units for four consecutive years.

Moreover, companies are now cutting back on their capital investment plans following the year-to-year real spending increase of 12.5% posted in the October-December quarter last year. Growth in machinery and construction orders, leading barometers for capital investment, is slowing down. According to various capital investment surveys,

Japanese Economy Remains Firm, But...



Notes: 1. Shaded areas indicate periods of recession.
2. The producers' inventory ratio of finished goods to sales and the capacity utilization rate are seasonally adjusted and indexed.

Sources: Economic Planning Agency, Ministry of International Trade and Industry, Ministry of Labor

companies foresee moderate spending increases of 1 to 5% for fiscal 1991 in nominal terms. Growth in plant and equipment investment should slow gradually.

In view of these factors, the Japanese economy is expected to move one step further into its correction phase.

The coincident indicator of the composite index is an indexed combination of industrial production, department store sales and other economic indicators that are considered to reflect current economic activity.

**Labor-management wage negotiations for all industries appear to have resulted in an average wage increase of around 5.5% this year, compared to 5.94% in 1990.

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MANAGEMENT

Lloyds takes the bit between its teeth

The bank is hoping to regain its throughbred image by cutting staff and selling assets. David Barchard reports

Is Lloyds, the black horse bank, still the thoroughbred of the British banking industry?

A year ago such a question would have been unthinkable. For several years, Lloyds' message to the market has been that although it is the smallest of the Big Four clearing banks in terms of assets, it is also the bank most clearly focused on the two goals of profitability and shareholder value.

But in February, Lloyds' quality image was severely dented by a poor set of 1990 results, though they attracted limited attention in the wake of even worse figures from some competitors.

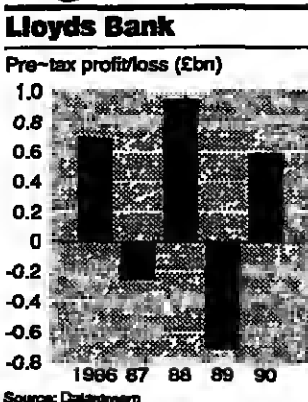
Just over half of pre-tax profits of £591m came from a single subsidiary, Lloyds Abbey Life, the insurance group which it bought in 1988. By contrast, profits from UK retail banking, the area on which Lloyds has concentrated most of its attention, slumped from £591m to £168m, after a massive charge of £427m for bad debts.

Almost equally embarrassingly, despite several years of aggressive cost cutting, Lloyds' cost-income ratio for the group, excluding Lloyds Abbey Life, was estimated by analysts to have risen from 64.5 per cent to 65.5 per cent, the third worst showing in the sector.

Yet for several years, Lloyds has been pursuing clearly defined policies designed to pilot it through what it expects will be crisis years for the banking sector in the 1990s.

"We could see that things were going to get tougher in the sector," says Brian Pitman, chief executive. "We believe that the strong will get stronger, and that the weakest will go to the wall. If banks don't face up to realities, their survival must be in doubt. Banks have got to generate enough profit both to service their dividend and for growth."

Pitman's early years as chief executive at Lloyds - he took the helm in 1983 - came in a period when the group had been battered by Third World debts. By making aggressive provisions for several years, Lloyds has whittled away a much



heavier debt burden than any other UK bank except Midland. But even after setting aside £3bn, Lloyds still has just under £1bn of unprovided Third World debt.

In 1986 Lloyds failed to take over Standard Chartered Bank. Since then Lloyds has been resigned to trying to be a smaller but nimbler entity than its competitors, concentrating on core retail banking activities in the UK.

True to his lights, Pitman has steadily sold off those activities which he regards as destroyers of value. "We sold business at a high premium, getting prices which would be difficult to repeat," he says.

The goal is to raise return on equity by moving away from capital-intensive business, though Pitman says Lloyds is still interested in corporate business when it can make a good return. In pursuit of this strategy, the group has withdrawn from markets such as North America, Portugal, Bahrain, and latterly some of its smaller operations in the Far

East in China, Hong Kong and Singapore.

When Lloyds pulled out of the Eurobond and gilt-edged securities markets in 1987 the bank suffered a strategic setback, abandoning its hopes to build Lloyds Merchant Bank into the sort of investment banking arm that BZW became for Barclays.

Pitman recalls the taunts that Lloyds was falling back on "Fortress UK" and was in effect turning itself into a glorified building society. But, he says, the retreat had little effect on its relationship with corporate customers.

At home, Lloyds - like all its main competitors - has closed branches and cut staff to reduce its costs. It shed 4,000 staff last year and plans to reduce its workforce by up to another 2,000 this year. Last year it moved its retail banking headquarters out of London to Bristol, cutting the cost per square foot of its premises from £50 to £20.

"We are not going to see the income growth in the 1990s that we saw in the 1980s. So the important thing is getting the cost line down," says Colin Wilks, chief financial officer.

Throughout the 1980s, Lloyds proved to be the innovator par excellence in the UK retail banking market, aggressively forcing the pace of change. Borrowing the idea from the US, it went into the estate agency business several years ahead of the insurance companies. Black Horse, its estate agency chain, now part of the Access chain, now part of the Lloyds Abbey Life group, cut its teeth earlier than its competitors and suffered less badly in the housing recession as a result. Last year, Black Horse reported a £12.7m profit, up from £7.7m in 1989, a loss of £5.3m in 1988.

In the credit card market Lloyds forced the break-up of the Access cartel by de-camping to Visa, the rival payment system, and then forcing the large banks to compete to offer credit card services to retailers directly. In 1989 it was first to introduce an interest-bearing current account.

The boldest stroke of all was

the purchase of a 57 per cent stake in Abbey Life in a £1.1bn merger. By winning the support of Michael Hepher, Abbey Life's chief executive, Lloyds was able to avoid a full bid. Instead it threw in its own life assurance, estate agency, unit trust and insurance broking arms, and its finance house, Lloyds Bowmaker.

The plan was to combine Lloyds Bank's branch distribution network and 6m customer base with Abbey's experienced direct salesforce, while in the longer term developing Lloyds' Black Horse life subsidiary.

In some quarters Hepher is now tipped as a possible successor to Pitman. But the question remains: without the Lloyds Abbey Life contribution, how strong is Lloyds' core banking performance?

Colin Wilks, Lloyds' chief financial officer, says that analysts' attempts to strip out Lloyds Abbey Life are misguided because the integration of the bank and the insurance group is irrevocable. "There is no case for excluding the life assurance numbers from our cost-income ratio. The underlying return is going in the direction we want it."

Whatever one makes of this slightly disingenuous reply, the fact remains that Lloyds' banking operations have taken some severe hits in the recession - the worst of which was the collapse of the International Leisure Group to which Lloyds had lent £50m.

At Lloyds' annual general meeting this year, Sir Jeremy Morse, the chairman, told shareholders that it was the worst loss in real terms that the company had sustained since 1927. Wilks points out



Sir Jeremy Morse (left) and Brian Pitman: concentrating on core retail banking activities

that Lloyds took action early. "We got most of the provisioning on ILG done in 1990," he says.

Lloyds' domestic had debt provisions of £732m in 1990, up from £198m the previous year, are seen as a sign of strength by Wilks rather than a symptom of inferior asset quality.

"As a bank we have always adopted the line that we must be fully provided," he says. "We suspect that maybe we have gone over the top a bit this year with provisions."

Others suspect that Lloyds may have been too aggressive in lending to small and medium sized companies in the past two years.

The bank itself believes that it is a jump ahead of its competitors. "Once we get over the hump an improved interest margin is in place. We came into the cycle earlier than the others in 1989 with high provisions. It may be that we will get out of it earlier too," Wilks says.

Resuming strong profits growth will be essential if Lloyds is to keep its pledge to shareholders of a sustained return on their investment with a strong dividend and a buoyant share price.

Pitman would like to see Lloyds earning a post-tax return of 18 per cent on shareholders' equity. That is going to be difficult to achieve in the immediate future. In 1990 the actual figure was 12.6 per cent and Sir Jeremy has warned that 1991 is unlikely to be much better. In these circumstances, how much longer will Lloyds - whose net assets have fallen by just under a fifth in the past four years while dividends have risen by

Thumbs down for the quick deal

Simon Holberton on long-termism

Hanson's stalking of ICI has given the debate about "short-termism" in Britain an edge it lacked throughout most of last year. It was fortuitous, therefore, that in the last of this year's London Business School Stockton lectures, Peter Grassmann, group chief executive of Siemens Medical Systems, last night addressed the opposite issue of "time and corporate ownership" in Germany.

UK industrialists have tended to cast an envious eye in the direction of Germany (and Japan) where the nature of the relationship between owners and management is seen to favour long-term industrial development. They will find much to support their view in Grassmann's lecture.

German industry, he said, is geared towards long-term relationships and these matter more than "the quick deal and short-term gains".

The business environment is also conducive to hiding profits in company accounts, investing, and realising that the pay-back on investment can take time.

Grassmann attributes this attitude partly to cultural influences - ranging from the respect with which the Germans view engineering and technology, to the need to rebuild the Federal Republic after the Second World War - and the structure of the German capital market, particularly the role of the banks.

Although the banks own just eight per cent of German companies directly, the decision of private investors (who own 70 per cent of company shares in Germany) to allow the banks to vote their stock gives "the banks quite some voting power" (and also provides desired stability for long term investment). This is bolstered by the division of control represented by the separation of supervision from management control.

Yet, German industry has not been impervious to developments in Anglo-Saxon capital markets or management orthodoxy.

Foreign ownership - mostly US and UK investment institutions - of German equities now stands at 20 per cent and, in some cases like Siemens, 35 per cent; companies like Siemens have embraced "shareholder value" as a corporate aim.

Siemens reorganised its management in 1988. Before that, the company's chairman, its chief executive and all of its seven group presidents had a technical background. Now the chairman and almost half of the 16 group presidents have a non-technical and mostly financial background.

After 20 years of holding its dividend at DMS a share it has begun to declare dividends that bear some relation to the growth in profits. The company's objective now is one of generating "steady, high earnings".

Clearly the world for German companies is changing. Is Siemens becoming more short-term? Grassmann said not. "Reasonable long-termism" survives. But it is qualified.

Previous articles in this series were published on April 19, 29 and May 15.

On this reckoning, Pitman's strategy of emphasising retail banking is yielding the hoped-for results and the black horse is still galloping ahead of the herd. But the next few years will show how long its stamina can be sustained, and no business, not even a bank, can continue selling assets to pay dividends indefinitely.

Ownership

Shareholders	Employees
20%	35%

Control/Management

Shareholders	Employees
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Supervisory board

Shareholders	Employees
20%	35%

Managing board

Shareholders	Employees
20%	35%

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Shareholders	Employees
20%	35%

Source: Deutsche Bank, 1990

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13

THE PROPERTY MARKET

Optimism at Canary Wharf

By Vanessa Houlder

The morning mist that occasionally shrouds the 800ft tower at Canary Wharf is an apt symbol of the confusion about the future of the 24m project. Rumours constantly circulate concerning the development's finances, the terms of its leases, the deals being negotiated and the time it will take to build and let each phase of its 10m sq ft.

These rumours came to a head this week when it was suggested in the press that the slump in the London property market had forced Olympia & York to halt work on the next phases of the project.

The unprecedented amount of surplus office space in Central London and falling rents (which are as low as £10 per sq ft on the Isle of Dogs and £45 in the City for top quality space) gave some plausibility to the story. Even if Canary Wharf is charging an equivalent of £20 a square foot after concessions, as rumour has it, its competitive advantage against the City has been eroded. Moreover, many would-be tenants are finding it difficult to dispose of their old leases - and O&Y is only prepared to take on

these old leases if the sums add up. The developer emphatically denies the story. Phase 3 is likely to start construction next summer, says Mr Michael Dennis, who is in charge of O&Y's London operation. (As some £20m has already been spent on excavation and laying foundations of phase 3 and phase 4, the timing is not dictated by the expiry of the Enterprise Zone status of the Isle of Dogs.)

However, he does not rule out a slippage of a few months. "The intention is to get ahead in that period, but we will see how we go on the marketing. You don't make a decision before you have to."

So far, the only letting deal that has come to light concerns Still Price Limited, an advertising agency which signed up in mid-April.

Mr Dennis is not downhearted. He still reckons that Canary Wharf should let another 800,000 to 700,000 sq ft by the end of the year. Negotiations are taking place with companies involved in advertising, marketing, law, publishing, oil and gas and insurance. O&Y is also trying to persuade the Department of the Environment to move to Canary

Wharf. Olympia & York's intention to press ahead is a disappointment to other London landlords, whose own fortunes would be helped enormously by a reduction in the space coming on to the market. Instead, they have to fall back on the argument that Canary Wharf is unsuitable for tenants because it is out of reach of central London.

This characterisation bears no resemblance to O&Y's own perception of Canary Wharf, which it sees as a modern rival for office headquarters to the West End and the City.

Nonetheless, O&Y has to persuade tenants about its accessibility to the centre. Public transport, which has been its Achilles heel, is being improved by more investment in the riverbus and the Docklands Light Railway, including its extension to Bank.

O&Y also has to overcome people's attachment to traditional locations. The tendency of similar businesses to cluster along with their customers and suppliers has created invisible ties linking industries to particular parts of London.

These ties may have been eroded during the 1980s, when technological change and the restrictions in the central London property market caused companies to go beyond traditional boundaries in their search for large, modern buildings. "London's property market is breaking from its past," said Salomons, the US investment house, in a study last summer. "The property adage

of location, location, location has now become product, product, product," it says.

This argument is supported by the way financial services companies spilled out of the City into places as far afield as Victoria and Hackney.

The banks' traditional argument that "proximity to the Bank of England is of paramount importance" (the City Corporation, November 1984) was overturned in 1985, when the Governor of the Bank of England said in his Mansion House speech: "perhaps the shift... from personal to electronic communication has altered the balance of the argument."

If the advent of electronic communication means that companies are prepared to sacrifice face-to-face contact, it amounts to a complete reversal of the rules about the evolution of London. Traditionally, London has pushed out its boundaries gradually. "No one makes giant steps for mankind in property," says Stuart Lipton, the founder of Stanhope Properties.

The remoteness of Canary Wharf - separated from the City by large tracts of brutalist housing estates - may perhaps have parallels with Continental centres like La Défense in Paris, but it contrasts sharply with previous (and highly successful) attempts to expand London and New York. O&Y's World Financial Centre in New York is three minutes walk from Wall Street and Stanhope's Broadgate is walking



Bird's eye view of the project. 'Why does it need to be quite so high?' wondered the Prince of Wales

distance from the Bank of England. The fact that nearly all Canary Wharf's tenants are North American has prompted speculation that UK companies are particularly conservative about their choice of location. Implicit in this argument is a suspicion that Dockland developers such as O&Y have suffered because they are not part of the UK property establishment. Mr Robert Tussell, managing director of the Swedish-owned NCC which is building a

business park in the Docklands, believes that its task would be easier if it were British. "Had it been MEPC (the developers and investors) doing Canary Wharf, then the perception would have been quite different. People would not have questioned their judgment," he says.

From the outset, Canary Wharf's architecture (by Cesar Pelli and SKM) has had detractors ("an awful great Stalinist block", said Ken

Livingstone. "Why does it need to be quite so high?" queried the Prince of Wales). As the buildings materialise, they are winning more fans. The details, the quality of the materials, the careful layout and the imaginative landscaping are impressive. On a sunny day, a visitor making the 10-minute trip by the Docklands Light Railway may find the glittering expanse of Canary Wharf a stunning climax to the journey.

RENTAL GROWTH (%)				
	Retail	Office	Industrial	All Properties
Year to March '91	3.2	0.5	4.9	2.5
Quarter to March '91	0.2	-1.2	0.5	-0.3
Month of March '91	0.0	-0.3	0.1	-0.1

Source: Investment Property Database

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TECHNOLOGY

Della Bradshaw explains how to stop a computer development project from running out of control



Percentage of computer projects in the UK that run out of control

Size of development budget	Percentage of projects that run out of control
Under £50,000	55%
£50,000-£249,000	62%
£250,000-£499,000	62%
Over £500,000	70%

Source: KPMG Peat Marwick

In pursuit of an untamed beast

It became apparent to the Foreign Office in London in September 1988 that the company was not developing its office automation system was running into problems. When the department realised that the company was not able to complete the project in a reasonable timescale it decided to stop the project altogether.

Fortunately for the taxpayer, the Foreign Office got more than half of the £2m paid to the contractor back. But all the department got for its money was a two-year maintenance contract, documentation and some small pieces of software.

Not the powerful Folios (Foreign Office London Integrated Office System) software which was intended to distribute information around the whole department.

Such a situation is all too common, both in government and the commercial sector. Numerous computer projects run over budget, over time-scale and, once installed, fail to perform the task for which they were intended.

The problems of government departments are the ones most widely publicised, because they are obliged to come clean on their computer blunders. Not surprisingly, commercial organisations almost invariably try to cover up embarrassing failures of this type, making the scale of the problems difficult to assess accurately.

But according to a survey carried out by KPMG Peat Marwick 62 per cent of UK companies have experienced a "runaway" computer system - the phrase coined by KPMG for computer projects that get out of control. The larger the project the greater the chance of it turning into a "runaway", according to the report.

Projects with a development budget of less than £50,000 had a 55 per cent chance of running out of control, while those with a budget of more than £500,000 faced a 70 per cent chance.

Anecdotal evidence from lawyers and consultants working in the field backs up such figures. "We have been involved in a number of situations over the years where people have clearly not been getting value out of their IT investments," says Trevor Cook, of the computer and electronics group of Bird & Bird, the London solicitors.

"Naturally they will have kept this quiet from the outside world. Some of them may have even kept it quiet from senior management."

The loss is more than just monetary. If the system is

planned to give the company a clear strategic advantage over its competitors its failure can result in the company losing market share. At the same time huge amounts of money are still being thrown into the data processing department or software house to try to rectify the situation.

Steve Lerner, a consultant who specialises in computer disputes, believes it is the pressure put on potential customers by computer salespeople - many of whom over-exaggerate the attributes of their systems and underestimate the inherent difficulties in implementation - which leads to inadequate systems.

Others, such as Martin Langham, manager of systems management at the Butler Cox consultancy, take a more charitable view. "As a basic principle it is impossible to accurately define at the beginning how long a project will take," says Langham. "People tend to underestimate because they leave things out."

Whatever the reasons, the problems are rarely technical, says Morag Macdonald of Bird & Bird. "Users just don't understand that there are three elements to computer systems - hardware, software and human beings; it's the human beings who are wrong most of the time."

"The most common thing to go wrong is that the person

buying the system does not properly understand the requirements and how the system is to be used," says Lerner. "That is the situation for 90 per cent of computer disputes."

Lerner believes many company directors, especially in small or growing businesses, are addicted to "magic box buying", as he calls it. "They want a box that makes their company work," he says, and after that just bury their heads in the sand.

'The most common thing to go wrong is that the person buying the system does not properly understand the requirements'

As well as top management participation there should also be strong involvement from users in the definition and development, says Gordon Monsinho, the partner in charge of runaway systems management practice at consultants KPMG Peat Marwick. "It should be user ownership with IT involvement. The IT department should be seen as a supplier," he says.

One way of preventing com-

panies from getting into the situation in the first place is to draw up a legal contract between the company and its supplier. "It helps them cut away some of the over-optimistic thinking," Lerner says, and makes them focus their minds on what they really want out of a system. "It can be as good as a cold bath for the MD."

Such a contract should build in cut-off dates by which certain parts of the project should be completed, says Cook. It should also outline the biggest risks, and identify who is responsible if things go wrong. And it should specify the performance of the system when complete, and the response times for certain programs.

The contract should be seen as a working document, says Cook, which can be referred to throughout the lifetime of the project. In the worst event it can enable the customer to sue if things go wrong.

Several management techniques could also be implemented in order to prevent such a dilemma occurring: ● Break the project down into several small pieces of work, which can be implemented in stages and closely managed, says Langham. Each stage should last six to nine months. ● Carry out risk analysis before the project starts in order to analyse the risks to the business.

● Use computer prototyping

before the project begins and project management software from the outset. Follow a strict methodology.

● Do not be too optimistic about the use of Case (computer-aided software engineering) even though they can save time.

For those companies that are already involved in a project it can be difficult to spot the first signs of trouble. The larger the company, the more vulnerable it can be as it takes longer for the problem to percolate up through successive management layers, enabling the project to develop a life of its own before any senior manager notices.

One telling sign, says Langham, is when the project leaders claim the system will go live imminently - what he calls the "real soon now" or "as soon as possible" syndrome. He argues that the easiest way to spot a problem is by calculating how much manpower has been expended on the work over the original estimate, rather than simply looking at how late the project is.

Other indicators could be a growing number of complaints from users, staff morale at a low ebb and the postponement of other projects to concentrate staff in the problem area.

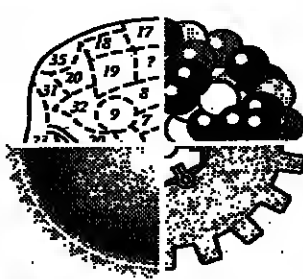
For smaller companies, says Lerner, the time when the first test results of the system are produced is often the moment when managing directors realise they can no longer keep their heads buried in the sand. "If they've got it wrong there's a magic moment when they say 'This isn't what we're getting, is it?'"

For those already well down the track of a problem system the options are stark: keep throwing good money after bad, salvage what can be rescued from the project; or terminate the project completely.

Not surprisingly, many consultants believe that they should be called in to help make an objective decision. But as Langham points out: "I've never seen a project manager suggest his or her project should be killed."

They might suggest starting the project from scratch employing management control and the latest techniques, such as Case, which could help to cut back the software delivery times. In certain cases Langham even advocates setting up a dedicated team with the latest software tools to undertake the languishing project.

For many, such as the UK Foreign Office, calling a halt, although drastic, may prove the least expensive solution.



WORTH WATCHING by Della Bradshaw

Zooming in on the perfect pic

ONE headache for the holiday photographer is trying to take a snap of a moving target while keeping it in focus.

Minolta, the Japanese camera company, believes it has overcome the problem with a compact camera which incorporates a zoom lens with automatic focus.

The lens starts to focus on the object in the frame as soon as the user looks through the viewfinder. If a person in the frame is moving towards the camera then the lens automatically adjusts to ensure that he or she remains in focus.

The autofocus works by using an infra-red sensor located just below the eyepiece. Once activated, the sensor measures the distance between the camera and the subject and sets the focal length accordingly.

Voted the compact camera of the year in the UK by "Amateur Photography" magazine, the River 2001 costs £195.

The final word on fraudsters

THE drawbacks with most biometric security devices - such as fingerprints or retina scanners - are that they are inconvenient to use and the prints can be copied, enabling the would-be fraudster to crack the system.

But Zetec, of Nottingham, believes it has overcome these problems with a voice recognition system which is pleasant and simple to use.

To set up the Z2000 voice recognition system, each user records a list of 25 words, the pronunciation of which is analysed using five different voice parameters. When entering the building the user

enters a personal identification number and then repeats five words which appear on the liquid crystal display in a random order. These are checked against the original voice print. There are 375,000 combinations of the words, making a recording of the correct combination almost impossible.

A version of the system is also available to prevent unauthorised access to computer networks.

The link between food and disease

CERTAIN foods are good for you, but which ones can prevent illnesses?

A five-year research programme has just started in the US to isolate foods which can prevent cancer. The programme, undertaken by Arthur D Little, of Cambridge Massachusetts, and funded by the National Cancer Institute's diet and cancer branch, will be the first to look at the relationship between food and cancer prevention.

The initial aim of the researchers will be to demonstrate that phytochemicals, which occur naturally in some foods, can inhibit the growth of cancerous cells. The programme will be to calculate which foods, in what amounts and which combinations, can be the most effective. Pre-clinical and clinical trials in animals and humans will then be conducted.

The final stage will be to develop palatable dishes combining the effective foods - such possibilities include a combination of liquorice and garlic.

Hungary aims for a slice of CD pie

COMPACT disc technology is being used increasingly in education and training, but for many smaller companies and educational establishments producing their own discs can be expensive.

A Hungarian organisation, through its newly formed status as a state-owned company, hopes to target this market by publishing CDs for overseas companies and universities. Tudorg, of Budapest, hopes to target this market by publishing CDs for overseas companies and universities.

Tudorg, which is represented in the UK by Fosseway Trading, of Gloucestershire, compiles the information and

then sends it to Phillips in the Netherlands to produce the master disc. The Hungarian firm then prints the discs in Budapest.

Tioxide takes to the sun

A COMPANY specialising in the production of white pigments for the plastic industries has tailored the same chemicals to act as a sunscreen for use in cosmetics.

Tioxide Chemicals, bought by ICI last December, has developed a version of titanium dioxide which, it says, can block out both UVA and UVB light which between them can cause burning and skin disease.

Titanium dioxide is widely used to produce the white colour in plastic baths and has also been used in sunscreens. It is the most effective of the sunscreens where the pigment is used to prevent sunburn.

To produce the sunscreen Tiotal, Tioxide has ground down the material into an ultra-fine powder so that it does not reflect visible light, and so is invisible on the skin. The company believes it will find a ready market in moisturisers, lipsticks and other cosmetics - some of the fastest growing areas of the sunscreen business.

Miniature lettuce on the menu

THE single gourmet could soon be in for a treat. Scientists in California have developed a mini-lettuce which is just enough for one portion.

The size of a tennis ball, the perfectly formed miniature lettuces were developed at the US Department of Agriculture's research station at Salinas. Scientists there altered a lettuce gene critical to a natural growth hormone called gibberellin to come up with the edible morsels.

The Salinas scientists will be providing samples to seed companies this winter, which should mean the mini-lettuces will be in the supermarket by spring 1993. The lettuces and lettuce, they say, is as good as the full-sized equivalent.

Contact: Minolta Japan, 06 271 2251; UK, 0800 211211; Zetec UK, 0522 22802; Arthur D Little UK, 017 081 5590; Tudorg Hungary, 1 333 9177; Fosseway Trading UK, 0451 31563; Tioxide Chemicals UK, 0451 31563; US Department of Agriculture US, 408 755 2800.

FT LAW REPORTS

Underwriters will be represented in insurance claim

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION v TILLY
Queen's Bench Division: Mr Justice Walker: May 10 1991

THE COURT has power to appoint representative underwriters to defend an action which originated against one underwriter only in respect of his proportion of risk under a policy which has no leading underwriter clause binding all underwriters to settled claims, if the other underwriters have the same interest in the proceedings as the underwriter who is the defendant and have a common defence under physically separate policies on the same terms and bearing the same number. And the court will exercise that power in the absence of agreement by the underwriters to be bound for their proportion of the costs of the proceedings, if there is a serious risk that the original defendant might become liable for 100 per cent of the costs.

Mr Justice Walker so held when granting an application by the plaintiff, the Bank of America National Trust and Savings Association (Bantia), for orders appointing representative underwriters to defend its insurance claim in addition to the original defendant, Mr John Joseph Taylor.

HIS LORDSHIP said that the owners of the vessel Kyriaki took out hull and machinery insurance from December 31 1984 to September 25 1985. Bantia alleged it was the assignee of all the policies.

The policies had the same policy number, but different clauses were issued. A Lloyd's marine policy insured 49.76 per cent of 88 per cent. An Institute of London Underwriters Companies' Marine Policy insured 49.53 per cent of 88 per cent. Policies issued by individual companies insured 1.13 per cent, 0.88 per cent and 0.45 per cent of the 88 per cent.

Those policies were produced in the bundle of documents and the subscribers were identified. In relation to the remaining 12 per cent, Bantia asserted issuance of certain policies by individual companies including Abu Dhabi National Ins Co (Adnic) for 2 per cent, and Arabian Seas Co Ltd for 3 per cent.

Of those policies the only one produced was a policy subscribed to by Adnic and Arabian Seas. The other policies were not produced.

It appeared there might be an issue on assignment in relation to the policy subscribed to by certain of the missing policy underwriters and Adnic and Arabian Seas.

The policies all provided cover for loss and damage to hull and machinery, except where there had been lack of due diligence by the owners or managers.

The main issue in the action would be whether damage to the main control and bottom end bearings was caused by want of due diligence.

The incident occurred in July 1985. The underwriters refused to pay and litigation became inevitable.

Solicitors for the underwriters named Mr John Joseph Taylor as representative underwriter for the purpose of proceedings. His proportion on the policy was 0.0006901 per cent.

The original action was not a representative action. It was simply a claim in relation to Mr Taylor's proportion, and was issued in the expectation that an action against one underwriter would bind the others pursuant to an agreement to be bound.

There was negotiation as to terms of an agreement to be bound. Solicitors for Bantia required a term that if Mr Taylor should become liable for costs, they should be recoverable from him in full, and reimbursed by underwriters according to their respective proportions. Solicitors for the underwriters argued that each underwriter should be liable for his own proportion of the costs and not be bound on the basis that if his terms were not accepted it would be entitled to come to court and pursue an action with one or more representative underwriters.

On May 13 1990 the plaintiffs took out a summons under Order 15 rule 12 of the Rules of the Supreme Court. Order 15 rule 12(1) provided that "where numerous persons

have the same interest in any proceedings", the proceedings might be begun by or against any one of them as representative of the others. Rule 12(2) provided that at any stage of proceedings the court might, if it thought fit, appoint one or more of the defendants or other persons to represent all or some of them.

The action was not started as a representative action within rule 12(1). The court was thus concerned with an application under rule 12(2).

There were two questions. First, on the proper construction of the rule, did the court have power to appoint one defendant to represent others in the circumstances of the case?

Second, if it had power, should the court in the exercise of its discretion, appoint one defendant or more than one to represent other persons?

Mr Tomlinson for the underwriters submitted that there was simply no power in the court to make a representative order at all. He submitted that the only way in which a sensible result could be achieved was by an agreement to be bound.

Mr Schaff for Bantia said there must be power under rule 12(2) to allow an underwriter to be appointed as representative.

He submitted that *Irish Rowan* [1990] 2 WLR 117, in which the Court of Appeal rejected a submission that a case could never be within rule 12(2) where damages or debt were claimed against all defendants severally, demonstrated that earlier decisions placing a narrow construction on "the same interest in any proceedings" were not to be followed.

That submission must be right. In *Irish Rowan* the leading underwriter clause provided that "all settlements of claims or contestations whatsoever... taken by the leading underwriter, will be binding on all underwriters".

It was clear from the judgments of Sir John Megaw and Lord Justice Purchas that they were not treating the leading underwriter clause as simply relevant to the question whether the court should, in its discretion, order a representative action, as opposed to whether it had power to do so.

The question in relation to power was whether, without a leading underwriter clause of

the *Irish Rowan* type, there was "the same interest in any proceedings".

In *Irish Rowan* Lord Justice Purchas, placing great reliance on the leading underwriter clause, Lord Justice Staughton did not. Sir John Megaw recognised how inconvenient it would be to have to sue the separate underwriters. He said: "If there were 77 separate contracts of insurance, the result... would seem to be potentially anarchic from the practical business point of view."

A representative action was an action in which those represented were not named as parties. Order 15 rule 12(2) enabled a person to represent persons who were not named as parties. In such a situation it would be strange if the test were not the same, ie that the defendants whose interests should be represented in any proceedings "as under Order 15 rule 12(1)".

The court had power to make an order under the rules. It would exercise its discretion in favour of a representative action. It exercised that discretion on the basis that there was a serious risk that the representative underwriter might become liable for 100 per cent of the costs. It might thus be unfair to make Mr Taylor the sole representative.

The court had power to make one underwriter represent all underwriters even where, as here, there were distinct physical policies, because each of the underwriters did have the same interest in the proceedings. They furthermore had a common defence.

In the light of the considerations it was more satisfactory if the missing policy point or assignment point were dealt with by each defendant against whom the point was taken. That required joinder of the missing policy underwriters, if Arabian Seas were joined as a separate defendant. If one underwriter from Lloyd's Marine policy represented all underwriters on that policy, and one underwriter from the Companies' policy represented all underwriters on that policy, the underwriters' interests would be protected.

For the underwriters: Stephen Tomlinson QC and Stephen Kenny (Ince & Co).

Rachel Davies
Barrister

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Henry VIII

Of course, the play is really about the demise of Thomas Wolsey and the misery of Henry's first wife, Katherine of Arragon. The action tends to push Henry into the shade. But the issues, while not dramatically realised, are pertinent both to Elizabeth

In a strong cast, Dorothy Tutin (Queen Katherine) — powerless, friendless and expatriate — finds exactly the right combination of public strength and private weakness. Geraint Wyn Davies as the hapless Buckingham and John Quentin as the

In this year of Henrician celebration, the current Greenwich exhibition delivers more about Henry's political and cultural accomplishments than the play can, and has the advantage of being, for the most part, wife-free, allowing a different renaissance prince to emerge. But this production should make a fine five-hundredth birthday present for Henry next month.

Andrew St George Tony Britton as Cardinal Wolsey with Keith Michell's Henry

SYMPHONY HALL, BIRMINGHAM

Under Chaffly the Concertgebouw appears to have lost a little of its mellow, nutty string sound and instead gained in fleetness. It still makes a sumptuous noise, but the way the finale of the Haydn was negotiated, with no

Because he seems to conduct other orchestras so rarely nowadays, Chailly's maturity as an interpreter has only gradually registered. But in the Concertgebouw and the Symphony were had a powerful, comprehensive charge, built through the slow introduction, flecked with the Concertgebouw's peerless brass, and never afterwards relaxed. The scherzo was a miracle of articulation, the slow movement scripted in long, eloquent phrases, the finale a boundless feast of string and wind tone. As usual, Chailly and his orchestra offered three of Schimbert's German Dances, in arrangements by Bruno Maderna which recruit a piccolo and battery of percussion. They are salon nuts wittily cracked by the orchestra's mellophones, and flashily played off by the woodwinds. They were automatically associated with the Concertgebouw on its previous visits.

Andrew Clements

THEATRE ROYAL STRATFORD EAST

It is worth seeing partly because it is very well done. The performance at Stratford East is in cooperation with the National Theatre, so the performances and the direction are uniformly excellent. It is

Yet despite wanting to do many of the same things as the whites, they also regard themselves as somehow different. The phrase used in the army, and no doubt in other sections of British life, "He's not black, be's one of us", is not seen entirely as a compliment.

There is no sense of inferiority; nor should there be. These black soldiers are perfectly capable of recognising a white psychopath when they see one and analysing him. The piece is presided by one of those warm screen government information features claiming to show how easily the races can work and played together when the empire was under threat.

Block Poppies, without bitterness, shows some of the underlying problems. It is directed by John Burgess, and features a white poppy actor among several it would be Colin McFarlane for his account of a black's role in Ulster.

Malcolm Rutherford

ROYAL FESTIVAL HALL[illegible]

A sumptuous mezzo Fenena from Anne-Marie Owens, alert, intelligent *comprimaria* (Lesley Garrett, John Tranter, Christopher Ventris), and a tight, monochrome Ismaele from the young Italian Salvatore Ragonese. Opera to Concert plan more of these early-Verdi concerts. They cannot happen soon enough.

Max Loppert

SADLER'S WELLS

The problem doesn't occur in Mozart's score. Indeed, the impishness in his music for Monostatos and the radiant tranquillity with which he finally reunites her with her betrothed are two of the most difficulties into strengths. But during the opera's several passages of spoken dialogue there are undeniably awkward moments. Every modern production handles these issues its own way — evasively, aggressively, frivolously or frankly. Stephen Menzies's staging of this Opera 80 is a very different alternative. In *Don Pasquale* at Sadler's Wells until June 1) certainly confronts them, and yet it does

There's plenty of internal evidence to support such an approach. Only look: all that sleeping, talk of dreaming and tense references to the elder generation, opposite sex and boyegemen. But Medcalf doesn't focus his ideas well.

And the opera's references to nature (the wild animals tamed by the magic fluid in Act One) and the real world (the dawn before Pamina's attempted suicide in Act Two) are played down here. The opera often says "Look outside, know other forms of life," but this staging only says "Look inwards, know

But almost all the words are clear. Ivor Bolton's tempo is brisk but never hectic. The magic-bell dance in Act One and the Papa-Papa reunion are wittily choreographed. Penelope Randall-Davis (Queen of the Night) and John Tyrell (Pamina) are rather stiffly sung but the former brings off the famous staccat in *ahs* and the latter, always spontaneous, makes the last phrases of her beautiful aria liquid and melting. This is a most complex opera, perhaps the most difficult to stage in the whole repertoire. This is a nest or a laboratory of conducting, and I admire for making me even more aware of the opera's complexities than before.

Alastair Macaulay

ALDWYCH THEATRE

The Argentine tango is far more seriously erotic and less dignified than the American tango, than the British ballroom tango. Man and woman are closely linked, share steps, allow each other to display, while still in the other's embrace. The two creative forces are instinctively combined, the way the men's fingertips lightly touch the women's backs into action is endlessly sensual. And those feet! They circle ceremoniously on the floor and in the air, they boomerang, to and fro, to and out, between and round the partner's legs; they skip, strike and slide in a variety of surprising and beautiful patterns. The tango is witty.

And it is weighted. Man and woman remain held to each other and to the music. Suddenly, like a thunderclap, the strings swing away, the dance paces on. The whole dance will proceed with man and woman nose to nose. Another begins to grow to another, and then another, and

the dance, the choreographer is always the king, the one who directs, the serious staging that we associate with Diaghilev. *Tango Argentino* has since triumphed in several other cities; and Segura and Cressini have come to produce the great tributo to flamenco (*Flamenco Puro*) and jazz and the blues (*Shocks and Blue*). I hope these shows can be brought here too.

In the final numbers of *Tango Argentino*, the couples are full of couples. All of them are involved in different dances. They move, with the music, from slow to fast, and the stage is full of couples, some on the backbeats, and those masterful feet. Your eye cannot take in all of it; and your head almost bursts. Just as all of it coalesces into a single image of a couple dancing, the music (the greatest partner of them all) suddenly turns his woman (the severe, sharp *Nelida*) upside down, holds her there on his thigh, and laughs.

Alastair Macaulay

and the Downeses - seem to command, supported them with vitality and finesse.

on Thursday sees the world premiere at Covent Garden of Harrison Birtwistle's new opera *Arncliffe*, a Royal Opera Commission. The work is based on the 14th century poem *Sir Gawayne and the Green Knight*, which tells of a supernatural figure who challenges King Arthur's court to an exchange of blows. The libretto by David Harcourt is an original dramatic poem for the occasion which follows the events of the story of the opera. The conductor is Elgar Howarth, who played a large part in the success of Birtwistle's *The Mask of Orpheus* at the ENO in 1966. The cast includes Francois Le Roux as the title role and John Govenon as the Green Knight. There are six performances from May 30 to June 22.

The festival season is gathering momentum. The theme of this year's Bath Festival (May 24-June 1) is Beyond Vienna, focusing on the music of central Europe. In tonight's opening concert, Libor Pešek conducts Suk's symphonic poem Praga. Other visitors from Czechoslovakia include the

Russian artists are also featured. The highlights of the Dresden Festival (May 25-June 9) are a concert performance of Meyerbeer's opera *Il crociato in Egitto* (Sun), and a visit by the Hamburg State Opera with Alfred Kirchner's production of *Idomeneo* (May 28 and 31) and a new ballet by Hans van den Bogaert (June 1): The Sempers Opera's Mozart repertory is headed by a new production of *Entführung* (tomorrow), and the National Theatre in Prague will bring Prokofiev's *Betrothal in a Monastery*. There are concerts by the Dresden Philharmonic in the Theaterpark, Zagroep, the Staatskapelle under Herbert Stanković and the Los Angeles Philharmonic under Kurt Sanderling.

AMSTERDAM

Hijonmuseum A Century Apart:
19th century Dutch and French
paintings from the museum's own
collection. Ends June 30. Also
Chinese Painting: scroll paintings
and album leaves on paper and
silk from 16th to 19th century. Ends
June 20. Closed Mon.
Stedelijk Museum Prints by
Charles Meryon (1812-1868),
ranked with Piranesi as the

ERLEN
 1981-1988: John Heartfield
 (1891-1968): centenary
 retrospective of the influential
 Berlin-born photo-montage artist,
 known for his life-long Communist
 beliefs. Ends July 11. Closed Mon
 and Tues

Museum für Moderne Kunst
 Metropolis: a foretaste of trends
 in the 1980s, with 200 works by
 artists from 20 countries. Ends
 July 21. Also Berlin: Today and
 Tomorrow, plans for Berlin's future
 by 17 prominent architects. Also
 Photographs by Marie
 Astafiev-Vorobey (1900-),
 with examples of her experimental
 work from the period 1922-35.
 Ends July 28. Closed Mon

CHICAGO
Art Institute Paul Strand: first retrospective of the American photographer since his death in 1978. Ends July 21. Also English and French Printed Textiles: 100 examples mainly from the 18th and 19th centuries. Ends Sep 3.

Daily
COLOGNE
Schmitten Museum Book
decoration in the era of the 10th
century Ottoman empress
Theophanu. Ends June 18. Closed
Mon
FRANKFURT
Jüdisches Museum Friedl Dicker
Brandsels (1898-1944). Jewish artist

Contemporary Art from China, focusing on city and suburban images. Ends June 16. Daily
MADRID
Fundación Juan March María Helena Vieira de Silva: 64 abstract paintings for the Portuguese artist (1908-1998), distinctive for their prismatic effects. Ends July 7. Daily
MÜNCHEN
Antikenmuseum Ceremonial and ritual drinking bowls from ancient China: examples from ancient Greece. Ends Oct 27. Closed Mon
Kunsthalle der Hypo-Kulturstiftung Marc Chagall: 111 paintings and four wall tapestries from American and European collections. Ends June 30. Daily
Lehrstuhl für Nikolaus Lang (1947): collection using natural materials from Australia. Ends June 18.

Villa Stuck Genuine Fake: the art of copying by Mike Bidlo, with numerous startling examples. Ends Aug 18. Closed Mon
NAPLES
San Domenico Maggiori
Choir-book manuscripts 1400-1600, showing how the art of book decoration flourished despite the emergence of the printing press. Ends June 23. Daily
NEW YORK
Brooklyn Museum The Blue of Jingal: 35 Chinese cloisonne

16. Closed with
Museum of Modern Art The
Gardens and Parks of Roberto
Burle Marx, examining the work
of one of the most important 20th
century landscape architects. Ends
Aug 13. Also Seven Master
Printmakers: Innovations of the
1980s, with 55 works showing how
David Hockney, Jasper Johns,
Robert Rauschenberg and others
redefined possibilities for the print
medium. Ends Aug 13. Closed
Wed

PARIS
Centre Georges Pompidou Andre Breton (1896-1965): wide-ranging exhibition recreating the aesthetic world of one of the leading theorists of Surrealism. Ends Aug 26. Closed Tues.
Galerie Daniel Malingue Moise Kaeling: retrospective of the Polish-born member of the cosmopolitan Ecole de Paris. Ends July 14. Closed Sun
Galerie Schirn Kunst Masters of the 19th and 20th centuries: this annual event by the prestigious town-house gallery astonishes yet again with its roll-call of great names, dominated this year by a pair of oil-coloured titans: Rembrandt. Ends July 18. Closed Sun
Grand Palais From Corot to the Impressionists: exhibition in homage to Etienne Moreau-Nelaton. Ends July 22.

Louvre des Antiquaires Seating power: the historical development of seats as furniture, including a meharajah's throne, gilded Louis XIV armchairs and art nouveau chairs. Ends Aug 18. Closed Mon
Louvre (entry through the Pyramid) Treasures of Saint-Denis. Ends June 17. Closed Tues
PRAGUE

Convent of St George Ancient Chinese Art from the National Gallery collection. Ends Sep 15. Closed Mon
STUTTGART
Strategierle Max Ernst: centenary retrospective of the German-born Surrealist, with 200 works from worldwide collections. Ends Aug 4. Closed Mon
VENICE
Fondazione Cini Michelangelo and the Sistine Chapel: photographic and scientific documentation of the restoration, prints by artists inspired by the frescos and a group of original preparatory drawings by Michelangelo. Ends July 28. Closed Mon
Palazzo Grassi The Calts. Ends Dec 8. Daily
VIENNA
Albertina Dutch drawings from

worldwide collections, tracing all phases of his artistic development. Ends June 23. Daily
Museum of the 20th century
 Image-Light: developments in non-material forms of painting, such as those consisting only of light and pure colour. Ends July 7. Closed Wed
WASHINGTON
National Gallery Robert Rauschenberg (b1925): 150 examples of the Influential American artist's recent work

WEIMAR
Autonomes Kultur Centrum Picture
snake from the Bauhaus: 60 art
photographs documenting the
lifestyle of the famous school of
architecture and design. Ends
June 22. Closed Sun and Mon
WIESBADEN
Museum Alexej Jawlensky and
Agnes Martin: the Russian artist
Jawlensky (1884-1941) was
influenced by Matisse, formed
the Blue Four with Kandinsky,
Klee and Feininger, and settled
in Wiesbaden. Martin (b1912),
winner of the first Jawlensky
memorial prize, is linked to the
New York abstract expressionists.
Ends July 21. Closed Mon
ZÜRICH
Kunsthause Modigliani: 55 paintings
and 90 drawings. Ends July 7.
Daily

Labour and industry

THE LABOUR party has striven hard to replace its old reputation as enemy of capitalism with a new image as the friend of business. It no longer talks of controlling the commanding heights of the economy, but of forging a "partnership" with industry to rebuild the country's manufacturing base. Profit, enterprise and wealth creation have all become respectable words.

But how deep does Labour's conversion go? And does it offer anything distinctive to Britain's industrial prospects?

The party's shift partly reflects three electoral defeats. But it also acknowledges practical constraints. Privatisation has gone too far to be wholly reversed on other than constitutional grounds. The scope for intervening in industry is increasingly circumscribed by tough competition and merger rules enforced by Brussels.

These constraints have led the party to focus on broader policy priorities, many of them shared by the Confederation of British Industry. Labour rightly places much emphasis on education and training. Its commitment to improving public infrastructure is welcome, as is its surprising readiness to involve private capital. Decentralisation of regional policy seems sensible, while proposed tax breaks for research and development and gestures in favour of small businesses can do little harm (though they may also do little good).

which views government's role as containing competition rather than making it work more efficiently. Its policies on mergers, for example, would subordinate competition to loosely-defined "public interest" criteria, to the detriment of consumers. Such a move would be a step back from the supposedly free market model for Labour's industrial policy - where the importance of tough laws on competition is properly understood.

Retrograde idea

Labour's limitations show up even more clearly in its attitude towards the privatised monopoly utilities. It proposes to turn the clock back by re-asserting state control over British Telecom, the national electricity grid and water. Yet who, other than the trades unions, could gain from a return to the bureaucratic inefficiency which characterised Whitehall's governance of nationalised industries?

The government is vulnerable to the charge that it has too often put the acquiescence of the privatised enterprises and ease of privatisation ahead of the consumer interest. Labour could have responded by promising to break up the privatised giants further, in the interests of competition. It seems determined, instead, to exacerbate the government's mistakes.

It also remains blind to one of the better policy innovations of recent years, the emergence of a framework for regulating monopolies. There is scope for developing this and for extending pro-competitive regulation by, for example, giving more power and independence to the Office of Fair Trading.

Initiatives along these lines could stimulate industrial performance, while giving substance to Labour's claims to represent the interests of individual citizens. But such ideas appear too radical for a party intent on carrying respectability with producers, and not upsetting the unions. As a result, its industrial policy seems likely to amount, in practice, to little more than a modest increase in spending, a lot more quangos and some cautious tinkering at the margins of the economy.

This is the third in a series on Labour party policy

Competing claims

All this is fine so far as it goes, but it may not go very far. Upgrading education and infrastructure is a long-term challenge. It is also hugely expensive. Yet a fiscally-responsible Labour government would have limited extra resources to play with - and many competing claims upon them. Launching a raft of quangos may make matters worse, by draining scarce funds into half-baked schemes, such as a National Investment Bank and subsidies to encourage cash-rich finance contractors to diversify.

The party's second problem is that it has learned to live with capitalism, but not with the market. It remains wedded to a producer-driven approach,

The governor's oversight

THE GOVERNOR of the Bank of England is responsible for the value of the currency, protected partly through stern lectures, and for oversight of the financial markets, disciplined at least by traders who have raised eyebrows in the private of his own parlour. Now, thanks to a different kind of oversight, he finds himself the embarrassed victim of eyebrows and indeed lectures: he needs no outsider to tell him it was an error of judgement.

The outside directors of the Bank no doubt meant well when they decided that salaries in Threadneedle Street should go a little way to catch up with those across the street. It is hard to guess what was in their minds when they allowed that gap to widen so drastically in the previous two years, when pay rose only 4 per cent, harder to explain their timing. But the final decision was for the governor. This was not the year for the one he took.

How should central bank governors be paid? Fairly, meanly, as a general rule. However, puritan principles can be carried to dangerous extremes. US administrations, according to old Washington hands, are increasingly driven to recruit all their top officials from three classes: the banal, the stupid, and the independently rich. Mr Paul Volcker, who came to the Fed from a life spent almost entirely in the public service, was finding personal money quite a problem when he resigned, and won much sympathy.

He saw low pay as a real threat to the quality of government, and spent much of his first year in the private sector (after a pay rise of the order of 2,000 per cent) campaigning for better terms for all his former colleagues.

once or twice), and clearly meet what was once proclaimed as the Thatcherite criterion for public service posts: the rate needed to attract the right man. Not even rumour has ever heard of anyone who rejected the governorship on pay grounds.

Indeed, the aftermarket in Bank officials is so heavily bid that nobody with an ounce of financial foresight would refuse any senior Bank job. (This not only saves public money, but also usefully weeds out those lacking foresight.)

Political cost

In fact there is very little economic meaning to the Bank pay review - all political cost, and no benefit. The case for comparability is weak at the best of times in such a prestigious, sheltered agency - and this is the worst of times. People pay more by rote would be more appropriate, with rises inversely related to the rate of inflation, and pay cuts once this passes some sensible threshold - halow recent rates, in any case. Top Treasury officials, including ministers, could come under the same rule.

In the real world, the governor's gaffe is a venial matter - certainly when it is compared with those committed by rival lecturers on pay. From the president of the federation of British industry (who is also chairman of the Prudential, where on recent evidence it seems that board pay rises and wobbles profits go hand in hand) downwards. Excessive pay rises imply that the laws of the market are only for the toilers, which is bad economics and worse politics.

We have already suggested that shareholders should confront this problem, though this can be difficult when some of the money managers who exercise their votes are themselves on the list. The most conspicuous offenders should be susceptible to political pressure - double digits, no K, double the rate of inflation, no peerage, ever. Well, hardly ever, for it is ministers, rather than company chairmen, let alone Bank directors, who may get the redundancy notices that result from these pay excesses.

Comfortable salaries

The Bank of England is well clear of this dilemma. Its salaries do not pretend to match those available in the riskier dealing rooms, let alone in the largest public companies (the chairman of I.T. earned more in a week in 1988 than the governor gets in a year, even after his rise). But Bank salaries have long been comfortable (comfortable enough to frustrate the Treasury recruiters

Mr Bob Hawke, Australia's long-serving Labor prime minister, is always at his most dangerous when his opponents think he is beaten. But there are signs that Labor's long honeymoon with the Australian voters may be coming to an end.

Only 14 months ago, Mr Hawke led the party to an unprecedented fourth general election victory, confirming his personal popularity and underlining Labor's claim to have become Australia's natural party of government. The election left Labor in control of the federal government and five of the six states, with only New South Wales in the hands of the conservative Liberal/National party coalition. Labor is being put to the test in this key state when voters go to the polls in state elections tomorrow.

The outcome is unlikely to mar Labor's centenary celebrations in Hobart next month, when Mr Hawke will claim credit for the party's most successful period in power since its foundation in the shearing sheds of rural Queensland. But while the party faithful are drinking the Australian champagne, the test total Mr Hawke will be pondering the political hangover that looks likely to follow.

Labor's dominance of Australian politics in the 1980s was built on a reputation of the big spending which brought the last Labor government under Mr Gough Whitlam to an ignominious end in 1975, when the conservatives took power in a landslide. When the Hawke government came to office in 1983 it embarked on a policy of fiscal prudence combined with efforts to increase the competitiveness of the economy by exposing it to international competition.

The policy won widespread support from business, which applauded a growing federal budget surplus and initiatives such as the deregulation of banking, floating of the Australian dollar, abolition of exchange controls and reduction of protective tariffs. At the same time, Labor persuaded the unions to accept a series of agreements, trading tax cuts for wage restraint, which helped dampen double-digit inflation and partially protected living standards.

The formula delivered average annual gross domestic product growth of 4 per cent during the second half of the 1980s, while simultaneously beginning the transformation of Australia from one of the world's most protected economies. The government also achieved a significant change in attitude perhaps for the first time, there is now widespread acceptance that "this tough, increasingly competitive world of 54th people does not owe, and will not give, 17m Australians an easy prosperity", as Mr Hawke put it recently.

So why, as it gears up to give itself a pat on the back, is Labor trading the conservatives by 17 points in the latest Morgan Gallup opinion poll, and facing what Mr Wayne Goss, Queensland's Labor premier, warns may be a decade of retreat? The answer lies in the government's mishandling of the economy as it switched from boom to bust, and in a combination of incompetence, corruption and bad luck at state level, which is jeopardising the party's reputation for sound management.

With hindsight, the turning point can be identified as late 1987, when Australia loosened monetary policy to maintain liquidity in the wake of the global stock market crash. Lower interest rates set off a boom which in turn stoked up the inflation level, which led to an unsustainable \$23bn, (\$3.4bn) equivalent to 5.5 per cent of GDP. With its fiscal hands tied by the accord with the unions, the government had no option but to resort to interest rates as high as 18 per cent to slow the economy.

Higher rates have helped reduce the current account deficit to an annualised \$1.7bn in the current year, but the economic cost has been five quarters of slow or negative growth, and a

Mishandling of the economy has drained away support from Australia's long-serving Labor government, writes Kevin Brown

Riding to the end of a wave



Australia's federal treasurer Paul Keating (left) and the prime minister Bob Hawke

rapid increase in unemployment, which reached 9.9 per cent in April. Joblessness is likely to go on rising for several months, making a mockery of Mr Hawke's pledge that it would never reach 10 per cent.

The only bright spot in the economy is inflation, which fell to an annual rate of 4.9 per cent in the three months to March, enabling the government to claim a "historic" breakthrough, even though much of the improvement was due to weak demand and one-off factors such as falling fuel prices in the wake of the Gulf war. But the government is unlikely to forget the lesson of its Labor counterpart in New Zealand, which also tamed inflation, but crashed to a dramatic election defeat partly because of high unemployment.

Technically, Australia emerged from recession in the December quarter, but the economy remains weak, and the government has been reduced to hanging on in the hope that a recovery will begin in the second half of the year. There are, however, few signs that the economy has bottomed. On the same day last week that Mr Paul Keating, the federal treasurer (finance minister) was urging Australians to go out and consume, Mr Don Argus, managing director of the National Australia Bank, was warning that the start of the recovery might be delayed until as late as the middle of next year.

The danger for the government is that the longer the delay, the more likely it is that unemployment will be unacceptably high when it has to go

to the polls in March 1993. The alternative is to how to increasing pressure within the party and the trade unions for higher federal spending to pump-prime the economy. Mr Hawke has hinted that higher spending may become essential if union support for wage restraint is to be maintained, but it would mean abandoning hope of a budget surplus next year, and with it the government's conservative fiscal strategy. Mr Keating, who has already seen this year's projected sur-

The turning point can be identified as late 1987, when Australia loosened monetary policy to maintain liquidity in the wake of the global stock market crash

plus pruned from \$58bn to \$51.7bn by the recession, is fighting hard to avoid a return to deficit financing, but may have to give some ground in the next budget, due in August.

The government has had serious problems coping with the political impact of the weak economy, perhaps because contrition comes hard after eight years in office. Mr Keating now admits that the loosened monetary policy too much after the 1987 stock market crash, and tightened it too fast after the boom which followed. But few voters were very impressed by Mr

Keating's claim that they were undergoing "the recession Australia had to have", especially as he had earlier promised it would never happen. The treasurer has since withdrawn that remark, but the image remains of a government which has become engrossed in theoretical economics, protected by its cosy Canberra lifestyle from the economy of real Australia.

Against this background, the government's managerial credibility is being steadily undermined by damaging developments in the states. Labor is in trouble everywhere except Queensland, where Mr Goss only recently ousted the politically corrupt National Party government of Sir John Bjelke-Petersen. Significantly, even Mr Goss has distanced himself, in recent speeches, from the Hawke government in an effort to insulate his state premiership from the fallout of Labor's problems elsewhere.

The worst difficulties are in Victoria, where the state budget deficit has grown to \$22bn as a result of the collapse of the state-owned Tricontinental merchant bank and the enforced sale of its parent, the State Bank of Victoria. In Western Australia, sensational allegations are emerging from a royal commission into the state Labor government's close relationship with local entrepreneurs - such as Mr Alan Bond and Mr Laurie Connell, and the state government is unlikely to survive stories of satchels full of cash being passed around. The federal party could also become directly involved in the scandal fol-

lowing claims that some of the entrepreneurial money found its way to Canberra to help finance federal election campaigns.

Even the South Australian government, once the chief feather in Labor's cap, is in trouble because of a \$45bn loss by the government-owned state bank, which is being investigated by another royal commission. And in tiny Tasmania the defeat of the state, which is home to fewer than 200,000 people, a minority Labor government has proved unable to hold together an alliance with the radical Greens, and could be pitched at any time into an election it will probably lose.

Labor's electability will be tested tomorrow in New South Wales, the richest and most populous state, when Mr Nick Greiner, the Liberal premier, has called an early election in an attempt to capitalise on the contrast between his government's relatively sound performance and Labor's disasters in Canberra and the other states. Mr Greiner's campaign theme is simple: "This is the first recession in which there have been clear interstate differences," he says.

"It is the first recession where the policies of different state governments have clearly, beyond any doubt, beyond argument led to dramatic differences in the quality of economic life." It is a message which looks like keeping him in office, especially since Mr Bob Carr, his Labor opponent, is having to spend much of his time keeping federal Labor leaders at bay, and ducking responsibility for their policies.

Mr Greiner's confidence is echoed by other state Liberal leaders. For example, Mr Dale Baker in South Australia says Labor's "incompetence" will inevitably lead to the defeat of the state's Labor government, and Mr Barry MacKinnon in Western Australia says corruption revelations will put Labor out of business for years. By contrast, Labor despondency is epitomised by Mr John Hammon, premier of South Australia, and federal Labor president, who admits that the party is pinning most of its hopes on persuading the voters that things were not much better under past conservative governments.

Once, Labor could have counted on the business community for support in tough times, but few businessmen are now willing to meet out on the government's behalf, and many are ready to complain. Mr Ian Spicer, chief executive of the Confederation of Australian Industry, says business "strongly holds the view that the government has lost its way and no longer has a clear or coherent economic or industrial policy. That contrasts quite strongly with the first five or six years of the Hawke government, in which it clearly had a view and a policy, and whether business liked it or not there was a degree of confidence that at least the government knew where it was going."

With two years to go to the next federal election, the government is far from finished. Mr Hawke remains marginally more popular than Dr John Hewson, the Liberal leader, and the party continues to dominate the conservatives in the federal parliament. Dr Gerard Henderson, director of the Sydney Institute, a free market think tank, acknowledges that the government looks tired, but says it is too soon to write off Labor, and suggests the party may recover ground quickly once the economy picks up. Nevertheless, Labor looks in its worst shape for years. Mr Hawke may still achieve his dream of a fifth successive federal election victory, but the odds are growing longer. As a gambling man, the prime minister would appreciate the significance of that.

In yesterday's FT book review Power and Accountability by Robert Monks and Neil Minow was incorrectly referred to as Power and Responsibility. We apologise for the error.

Grown in the job

■ There must be a warm glow inside BT's executive chairman John Vallance, at least in the stature befitting the head of a company making a profit of more than \$3bn annually. His appointment in 1987 was greeted with dismay by some ministers who wanted a stronger outsider to knock the then British Telecom into shape and indifference by the public.

He succeeded Sir George Jefferson in the top job as a lifelong BT insider (his father worked for the General Post Office). He rose to the top because he was an adept committee man, schooled in the ways of the old bureaucracy. Yet in the past three years the quietly spoken, analytical Scot has confounded his critics. BT's quality of service has improved markedly. The trunk network has been modernised. Costs are being cut aggressively. Management restructuring has been radically overhauled. The group has a new corporate image. Most importantly Vallance successfully charted its way through the recent government review of the telecommunications industry.

Once a somewhat ungainly and shy performer, he has become confident and relaxed. And while the temptation to continue rooting in BT must be strong, he is on record as saying he'll start thinking about his next job in 1994.

By then the remaining government stake in the company should be sold. Moreover he should have collected his knighthood. What better equipment could a 53-year-old have for leaving the nest?

History lesson

■ A couple of points need to be made about the Governor of the Bank of England's 17 per cent pay rise. Robin Leigh-Pemberton is hardly a poor man and could easily have

made a gesture by not accepting the increase.

His predecessor, Gordon Richardson, was well-known for foregoing a portion of his salary. In nine out of his ten years in Threadneedle Street, he took less than he was entitled to. Since Leigh-Pemberton took over his salary has tripled.

Indeed, Lord Richardson not only believed that the Governor should set an example, but he also expected his senior staff to make sacrifices. One former Bank director recalls the annual ritual whereby Richardson would delay for several months his approval of pay increases. These would eventually come through appropriately belatedly, but sufficiently tardily to drive home the message that people should not look upon money as their sole reward.

And while we are still on the subject of Bank of England pay, how about a rise for the rest of the non-executive directors? Their pay has been fixed at \$500 per annum since time immemorial. Just allowing for inflation in this century would mean raising their salaries to \$25,000.

Dynasty

■ Canada's Bronfman dynasty shows no sign of loosening its grip on Seagram, the world drinks giant. The latest family member to move into the boardroom is Samuel Bronfman II, whose grandfather, the first Samuel Bronfman, bought Joseph E. Seagram and Sons in 1929 from the profits he made selling Canadian liquor to US bootleggers during Prohibition.

The younger Sam first caught the public eye in 1975 when, at the age of 23, he was involved in a messy kidnapping in New York. He has kept a low profile since then, spending the past five years running

OBSERVER



"I promise to pay the Governor on demand the sum of..."

A Seagram wine subsidiary in California. Sam's father, Edgar, is still in the driving seat at Seagram as chairman and chief executive. But with his 62nd birthday approaching, Edgar is clearly thinking of passing the torch to the next generation. Sam's brother, Edgar Jr, is already president and chief operating officer, and the obvious heir apparent.

Tit for tat

■ The timeless war between high minds and low tastes has entered the high-tech era in Hong Kong where, although pornographic films and videos are openly available, high-minded censors electronically blur out the naughty bits of the actors.

The opposing side is counter-attacking by marketing a widget that brings them back into focus. It is an optical decoding device looking like a pair of night-vision goggles priced from about \$20 to \$50, presumably dependent on magnification.

In support of the television and entertainment licensing authority that does the censoring, veteran legislator Peggy Lam - who once burned pornographic books in a public protest - is demanding a ban on the censors.

But they have a technical flaw likely to deter sales to all but the most concentratedly depraved viewers. When the naughty bits stand out, everything else on the screen is scrambled.

Smoke signals

■ Yet another informative press release from the European Bank for Reconstruction and Development tells the waiting world that its president Jacques Attali sent a letter on Wednesday to Yugoslav president Ante Markovic.

It confirmed that "a stable structure for the new Yugoslavia" was needed "for it to make full use of international economic assistance". Stability was important for Yugoslavia's development as a democratic market economy and "for its participation in the new enlarged Europe."

Attali further vouchsafed that "at this difficult time" for Yugoslavia, he was at Markovic's disposal "to help in any way possible".

The inference some are drawing from such cryptic smoke signals is that, despite some shareholders' fervent desire that the EBRD president should confine himself to running a bank, he still sees his main mission as chief torchbearer for a "new enlarged Europe".

Didn't he do well

■ Old dogs can learn new tricks, to judge by veteran tv entertainer Bruce Forsyth's address yesterday to a London conference of independent financial advisers considering Securities and Investments Board topics.

"Nice to see you, to see you nice," he said.

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Sensitive site subject to commercial climate

The wraps have come off what will be one of London's most important property schemes: the redevelopment of Paternoster Square, the 4.3-acre site adjoining St Paul's Cathedral.

The Prince of Wales, who criticised the proposals for the

site put forward in an international competition in 1987, has argued that 20th-century developers' instincts - their tendency to build quickly and cheaply, and as high as regulations allow - would have to be suspended if Paternoster Square was to be "both a vindication of tradition and a model for the next century".

By opting for a plot ratio (ratio of built space to land) of 4.3:1, 20 per cent less than the maximum permitted for the site, the developers have gone

some way towards meeting these concerns. Nonetheless, criticism may focus on the density of the scheme. The new buildings vary from four to nine storeys and will provide about 80 shops, comprising 125,000 sq ft of retail space and six office buildings, providing 630,000 sq ft of space.

The commercial success of the project, which will cost the developers an estimated £800m, will depend on the scale of the recovery of the London property market.

Some analysts think the developers' expectations of rents of more than £50 per sq ft in 1994-95 may be optimistic. The three partners, Greycoat, a quoted UK company, Mitsubishi Estate Company, a Japanese real estate company, and Park Tower Group, a US developer, have each an equity stake of £18m. The Venezuelan Organización Diego Cisneros, which sold the site at the end of 1988, also has a part participation in future profits. Some subordinated debt, a

low-security form of debt, has been provided by Mitsubishi, and £117m has been provided by the Swiss Bank Corporation as a short-term loan. Construction finance will not be arranged until the planning process is further advanced. The developers intend to retain the project as an investment. It also provides the first opportunity for three international partners to co-operate on a venture of this sort.

Vanessa Houlder

New neighbours for St Paul's

Colin Amery previews an exhibition of ideas for a classical re-design of Paternoster Square



jects selected to design buildings. The other architects are Robert Adam, Paul Gibson, Allan Greenberg, Demetri Porphyrios and Quinlan Terry.

With this roll call of names it is no surprise that the design of the scheme is classical in spirit. But any developer building on this important site as an immediate neighbour to the Wren cathedral faces more than a stylistic dilemma. Any building is restricted by "St Paul's heights" (a complex series of regulations rather belatedly devised to protect views of St Paul's). These are also rules about what can happen below ground to protect the stability of the cathedral, and rules about conservation

areas and the relationship to a listed building. What has been lacking in the City of London during the development of the Paternoster scheme has been any sense of a plan for the whole of the vital area around St Paul's. The consortium wants some 857,000 sq ft of offices and some 150,000 sq ft of shops to make the economics of the scheme work. This means a very high density as there are considerable constraints above and below ground. These realities make Paternoster a very hard nut to crack. In an ideal world people would live around the cathedral; there would be hotels and bookshops, galleries and museums. The reality is

different and - when you have to pay to go into the cathedral - offices and a shopping centre are inevitable. The architects' problem has been how to make the inevitable development formula more attractive and more architecturally appropriate. The key to their success is the plan. John Simpson prepared the original proposals as a rival to an earlier developer's unsuccessful competition. His plan formed the starting point for what can be seen in the exhibition. The essential principles remain. Paternoster Row and Paternoster Square and other routes have been reinstated for the pedestrian at ground level. The proper alignment of the

churchyard has been restored. Views of the cathedral have been carefully considered and there will be more of them from ground level. Height restrictions mean that buildings range from five to nine storeys. Materials are limited to brick and stone. Temple Bar is to be returned to the City and will stand just to the north of the cathedral near the west front.

The heart of the scheme is the new square. This is a two-level space with a series of classical pavilions that flank broad flights of steps. To stand at the centre of it will be an extraordinary experience - grand and enriched neoclassical styled buildings surround a space that is a hybrid of the centre of Siena and the Campidoglio in Rome. It will be a rich sight, and I am sure an enjoyable one.

The decision to have eight architects working here has brought about an unusual sense of richness. The adoption of the classical language has resulted, not in a dull and uniform palette but in an ingenious and vigorous series of solutions which do belong in the London tradition.

The exhibition is exceptionally well presented. It is possible quickly to understand the plan and see its advantages. The quality of drawing is high and there is a sense of a sober academic tradition recovering from a night in the wilderness. It is essential that the quality of this scheme is as high as possible - when you follow the classical route it is an unrelenting one, insistent upon lasting quality in materials and details. I hope that the owners of the neighbouring sites which are not yet part of the scheme will feel inspired to co-operate. For once comprehensive redevelopment does not mean uniformity but a level of quality that can only bring pleasure.

*Exhibition open from 10am to 6.30pm Mondays to Fridays; 10am to 4pm on Saturdays.

Joe Rogaly

The mortgage factor



Wealth, not health, will determine the outcome of the next election. Conservatives who comfort themselves with this thought should note the concomitant warning, which is that past performance is not necessarily a guide to the future and that opinion polls can go down as well as up. Still, it seems reasonable to assume that if there is enough money in the voters' purses many of them will vote Tory once again.

That is why the response of the building societies to the political interventionist pressure put upon them by Mr John MacGregor, leader of the House of Commons, may be the most important piece of political news of the week. Speaking at a Building Societies Association dinner in Glasgow on Tuesday night - from a text carefully checked with 10 Downing Street and the Treasury - Mr MacGregor pointed out that many homeowners have yet to see the benefit of interest rate cuts.

Translation: If mortgages stay high Labour might win. The fits with Mr John Major's known belief that the benefits of the lowering of interest rates over the past six months have yet to work through. The very next day the Halifax, the market leader in housing finance, announced that borrowers who had previously signed up for annual re-ratings of their mortgages would be permitted to move to a system of changes tied to the movement in interest rates. That means that the next time the government knocks half a point off base rate, up to 1.2m voters - sorry, Halifax "budget plan" borrowers - will be eligible for a tricky reduction in their monthly bills. Other lenders are following suit.

Halifax assures me that this has nothing to do with politics. Its decision was taken a fortnight ago. I am sure that the market leader is telling the truth. Yet the plot thickens. Reports from the Glasgow conference suggest that several delegates wonder whether Mr MacGregor's speech contained an implied bargain: you play ball on the mortgage rate and we will see

what we can do about clause 50 of the Finance Bill, which prevents a number of societies from reclaiming double taxation paid in 1985 and 1986.

Mr MacGregor will, of course, deny any such intent. Fair enough. British politics is rarely as blatantly corrupt as that, although more subtle deals are not unheard-of. Let us simply watch what happens to clause 50: we may see how subtle desperate politicians can be. But do not expect too much. A government that missed the opportunity to make a few behind-the-scenes phone calls to the chief executives of the opted-out hospitals to tell them not to rock the boat could be incapable of simple skulduggery.

My own doubts are not to do with such corruption as may or may not be in the air but rather the unfortunate timing of it all. The uncanny fit between the mortgage rate and the level of support for the Conservative party was illustrated in a graph in this column in September 1989.

The promise of a boost to voters' cash fits with an October election

Since then many similar graphs have appeared all over the place. But does the correlation hold? Yes and no. There seems to have been a small wobble over the past month or so, but the general relationship persists.

The important question mark hangs over the effect on election timing of the increasingly popular yearly budget plans. At the end of every January Halifax calculates a rate that will apply for the following payment year, which in its books starts at the beginning of April. Last year that rate was 14.5 per cent. It held throughout 1990-91, even though the variable rate, paid by Halifax's 500,000 borrowers not on budget plan, stood at 15.4 per cent between March 1 and November 1. The effect was that the 1.2m budget plan payers accumulated extra debt during these seven months. If they stay on budget plan this year they will still pay

14.5 per cent, but flexible payers are already two cuts down, to 12.95 per cent. Thus budget plan payers are paying "too much" this year, so the 1990 debt will be wiped out. What Halifax is now offering is a choice: go over to flexible payments but first repay the excess debt accrued last year or come down to the flexible rate just for this year but understand that you will owe more, and pay more interest, from next April 1. This offer will not be promoted to mortgage holders but merely available to them. After all, the Halifax is not Conservative Central Office.

Yet the promise of a short boost to voters' cash flow fits in with an October election. Taking the money back in April does little for a May 1992 election, unless overall rates are much lower by next January 31 - when the 1992 budget plan rate is to be fixed. I am sure that the Tories have mastered this calendar, and not only as it applies to the Halifax but to all mortgage lenders. Mastery is difficult. Every society is different. The Council of Mortgage Lenders estimates that 40 per cent of borrowers are on some form of annual review: these are available at eight of the 13 largest building societies and three of the big four clearing banks. Their review dates vary, but a January cut in interest rates should catch most of them in time for a spring vote.

In the good old days the government might have been tempted to arrange such a cut, and thus buy the election. But this year it was boxed in by the exchange rate mechanism. It had to tip-toe past January with a series of hesitantly-timed half-point reductions in base rate. The Treasury can no longer manipulate rates in concordance with the complicated mechanics of the housing finance market. To the Conservatives' chagrin that market itself now seems anarchic. This is doubtless a result of some government or other deregulating financial services. Perhaps Mr Major and his team will reflect on that as they finally gear themselves up to engage with the well-trained forces of the Labour opposition in what promises to be a highly-charged summer campaign.

LETTERS

Explaining part, but not all of the evidence

From Mr Vladimir Brailovsky.

Sir, In an article by Edward Balls ("International Economic Indicators", May 13), an argument is put forward to explain why in the more "efficient" economies in Japan and Germany the ratio between gross domestic product at the current exchange rate and GDP at purchasing power parity (PPP) is higher than in less-advanced countries, such as the US and the UK. This is based on two assumptions: 1. "The prices of tradable goods are brought into rough equality by global competition"; 2. "The so-called 'law of one price' operating at an international level, when measured in a common currency". The higher "real exchange rate", which the author defines as "the relative price of non-tradable goods in terms of tradable goods", in the more efficient economies. Since "efficiency" does not vary much in the short-run, therefore the "real exchange rate", as defined by Mr Balls, would also remain relatively constant. Thus, everything else equal, all domestic prices in local currency - tradables or non-tradables - should move in exact proportion, given a reasonable time lag, to the nominal exchange rate.

But if this were the case, why is it that "large fluctuations in exchange rates can give a misleading picture of changes in economic fortunes", as the author exemplifies by the 21 per cent depreciation of

the Yen against the Ecu between 1989 and 1990. According to his theory, Japan's GDP in Ecu terms should have remained approximately the same in that period. Instead, it contracted more than 11 per cent, in spite of having grown, in constant (Japanese) prices, by 5.6 per cent. To comply with the theory, moreover, Japan's domestic inflation rate should have been about 21 per cent far above the actual rate. In fact, estimating at PPP would have been a rather idle exercise if the predictions of the theory were correct.

One has to conclude that, in real life, prices, even of tradables, do not move in proportion to the nominal exchange rate. I.e. that the "law of one price" is usually transgressed beyond recognition, although certainly there is a loose association between the exchange rate and the exchange rate. Similarly, the price ratio of non-tradables vs tradables is, in fact, among other things, a function of the exchange rate, through its effect on the real wage rate (the nominal wage divided by the domestic demand deflator), and not only of "efficiency". This is so given the large wage constant of non-tradables. Economics is still plagued by Ptolemaic laws that explain part of the evidence but not all.

Vladimir Brailovsky, Economía Aplicada, Monte Pecos 111-301, Lomas de Chapultepec, 11000 Mexico

Praise for BAe collaboration

From Mr S.A. Moore.

Sir, I was astonished to read Professor Roland Smith's comments ("Research skills are in a night", May 21) to the NEDC concerning the lack of research collaboration between British Aerospace and the University of Manchester. On the contrary, the range of our collaboration through our department of engineering, could hardly be more fruitful.

A £2m wind tunnel is now operating in the department's aeronautical research laboratories, thanks to BAe's generosity. Research contracts in aeronautical and dynamics

engineering to the tune of £1m are currently being funded by BAe. BAe supports research in aerodynamics at BAe (Q8 in 1991).

We run in-house courses for BAe staff, have staff and student exchanges, and are a main supplier of graduate engineers to BAe (Q8 in 1991).

These are just some examples of our working together. I and my professional colleagues are delighted that BAe is so closely linked with the university. Long may it continue.

S.A. Moore, acting vice-chancellor, University of Manchester

Curious conclusion on core skills

From Mr Jack Strum.

Sir, In his article "Bottom of the class" (May 21), about Britain's poor record on education and training for 16- to 19-year-olds, Andrew Adonis takes issue with Labour's list of "core skills" and says that they are of "dubious value in constructing a common curriculum for post-16".

This conclusion is curious. Our list of core skills was in fact drawn from the Confederation of British Industry's own 16-19 proposals. They include "values and integrity", "positive attitudes to change", and "understanding of the world of work", as well as the application of numeracy and technology and problem solving. We agree with the CBI that these are crucial skills for the 21st century. The case for such skills was underpinned by

the recent report of the government's own Advisory Council on Science and Technology which said of A-levels that "they place too much emphasis on learning facts at the expense of understanding fundamental scientific principles and the development of scientific skills", and that "they reduce the scope for arts students to develop wider communication and other personal skills".

Labour's proposals for an integrated 16-19 examination meet the overwhelming consensus for reform. It is sad that by its obsession with unrefined A-levels the government's do not. Jack Straw MP, House of Commons, SW1A 0AA

Criticisms of Takeover Panel not contradicted

From Prof J.L. Jowell.

Sir, Mr David Calcutt, chairman of the Takeover Panel, takes issue (Letters, May 15) with my suggestions about some procedural inadequacies of the panel ("Self-regulation under threat", May 9). Yet his reply seems to support rather than contradict my points.

First, he denies that the panel's composition gives the appearance of bias. Yet he supports that suggestion by pointing out that only three of its 15 members (excluding the chairman) are industrialists.

Second, he disagrees with me that the panel's consultative procedures are minimal. That suggestion, too, is supported by his demonstration

that those procedures are conducted entirely within the panel's membership.

Third, while alleging that I am "confused" about the lack of *inter pares* hearings before the panel, he admits that the panel's executive (to which I was obviously referring) "does not normally find it helpful...to hear arguments from both sides at the same time". It is difficult to understand why the full panel (on appeal from the executive's decision) does find it "helpful" to hold *inter pares* hearings. The right to appeal should not excuse the lack of a fair hearing in the first place.

Finally, exclusion of legal representation as of right

before the panel is justified on the basis that it would lead to delay and "legalism".

By what authority does Mr Calcutt, a barrister himself, imply that the co-operations are apparently incapable of grasping the rather basic fact that the panel follows the purpose rather than the letter of its code?

Jeffrey Jowell, Faculty of Laws, University of London, Benthams House, Endsleigh Gardens, WC1

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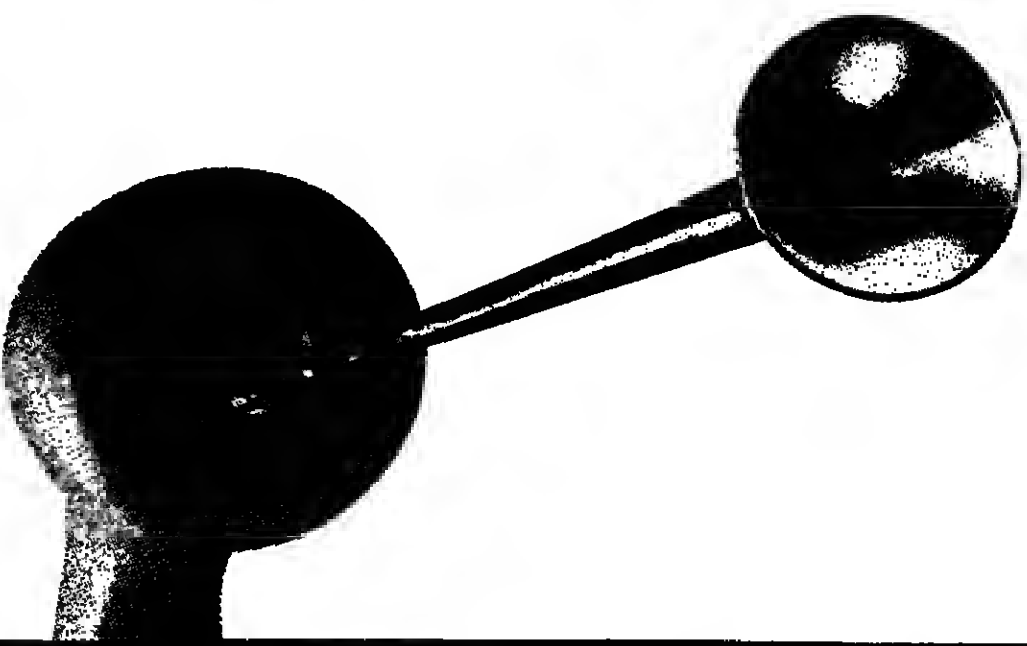
From Mr Peter McKenna.

Sir, In its comments on water companies, Lex (May 18) sees only two routes for their surplus funds - back to the owners or into diversification by way of acquisition. The millions of tied customers of such monopoly suppliers might think that they are worthy beneficiaries, especially as they provided the money in the first place. This is particularly the case when they are subject to an inflation-plus price increase policy, currently +14.2 per cent for Thames, and authorised for the next 10 years.

Peter McKenna, Tithes Barn Cottage, Temple Lane, Bisham, Bucks

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RECRUITMENT

JOBS: How executive pay varies in Europe
The Spanish spring a surprise

HERE'S a turn up for the book. Over a decade of making periodic checks on international pay levels, the Jobs column has become accustomed to viewing the Swiss as the executive fat cats of Europe. Indeed, as each annual survey has come round, my only curiosity when working out the country-by-country ranking has been to see who'd be second.

But in roll the latest findings of the Brussels arm of the Wyatt consultancy, and what do we find? In terms of estimated buying-power - which is surely what counts most - the Swiss have fallen not one, but two places on average. The Luxembourg comes second. And pride of place goes to the Spanish, who have had a socialist government since 1982.

Before building any conclusions on that, however, it is important to be aware of the limitations of the survey, and even more so of the deficiencies of my extracts from it which appear in the table over there to the right.

For one thing, while the findings are based on data from 1,249 organisations in 17 European countries, Wyatt's study does not measure up to the statistical rules for being representative. So it would be wrong to regard the pay-levels of the companies which took part as typical of those across all employers in the same lands.

For another thing, my extracts are confined not just to a mere dozen of the 17 countries, but to only three of the nine or 10 directors' jobs which in most cases the study spans. Anyone wanting the full report, priced at 30,000 Belgian francs, should contact Patricia Van Bergen of the consultancy at 273 Avenue de Tervuren (Box 4), 1150 Brussels, Belgium; telephone (02) 771 59 10, fax (02) 762 37 43.

The table covered by my figures are chief executives and directors of finance and administration, and of personnel. For each, the table gives basic salaries, total money pay including bonuses etc, and a rough measure of buying power.

It is calculated by taking the total cash pay, deducting the particular country's standard tax and social security charges for a person with the specified income who is married with two children, then adjusting the resulting net pay in line with Wyatt's index of international price variance. Unfortunately, as it is evidently impossible to devise a consistent measure of housing costs across different countries, that important expense of life is left out of account.

The table's left-hand three columns of figures refer to the lower-quartile executive who would be a quarter of the way up from the foot of a ranking of all in

the same kind of job and country. Next come the median manager mid-way in the ranking, and the upper-quartile one a quarter way down from the top. The standard averages are on the right. Where the countries appear in the table depends on the average buying-power of all three kinds of executive taken together.

Although that is a very approximate as well as complex measure, it is the best at present to hand - and, as may be seen, it puts the Spanish top of the heap.

One likely source of distortions is that there are marked variances in the sizes of the organisations making up the different countries' survey samples. But my search for connections between company sizes and positions in the pay league has come to naught.

Anyway, in the final analysis, the main explanation for Spanish supremacy in the table must lie in Wyatt's living-costs index which puts Spain at 67 compared with the UK's 100, Luxembourg's 96, and Switzerland's 144. Alas, I've no way of judging the accuracy of those estimates.

For what it's worth, however, my FT colleagues in Madrid have no difficulty in believing that Spanish top executive cats now take Europe's cream.

Michael Dixon

COUNTRY	JOB CATEGORY	LOWER QUARTILE			MEDIAN			UPPER QUARTILE			AVERAGE		
		Basic salary	All cash pay	Buying power	Basic salary	All cash pay	Buying power	Basic salary	All cash pay	Buying power	Basic salary	All cash pay	Buying power
SPAIN:	Chief executive	57,113	64,024	45,628	69,901	79,940	53,293	87,112	107,882	68,201	75,043	88,021	57,669
	Finance director	40,947	43,553	34,542	51,190	55,393	40,741	65,830	71,577	49,363	54,643	59,986	43,438
	Personnel director	38,139	39,810	32,031	48,472	52,652	39,345	60,890	66,973	46,958	50,905	55,024	40,477
LUXEMBOURG:	Chief executive	55,784	60,829	41,889	72,348	82,689	53,403	84,349	100,714	61,897	71,071	81,079	52,363
	Finance director	38,025	41,029	31,827	46,026	50,755	37,009	59,817	63,187	43,441	50,390	54,091	38,878
	Personnel director	38,473	42,423	32,701	46,788	50,599	36,888	59,851	65,079	44,064	48,747	53,809	38,675
SWITZERLAND:	Chief executive	76,254	84,266	41,027	88,264	104,376	48,613	105,595	138,755	61,774	94,536	113,612	52,137
	Finance director	59,180	61,619	31,654	67,133	70,660	35,330	78,625	83,145	44,021	69,838	77,605	38,271
	Personnel director	52,603	54,500	28,917	62,095	66,972	34,406	75,026	83,576	41,518	68,078	74,789	36,882
ITALY:	Chief executive	57,989	65,373	40,531	72,983	83,991	50,395	99,067	112,965	66,649	78,519	82,495	55,491
	Finance director	40,821	43,778	28,456	52,811	54,235	34,161	65,826	71,479	43,809	57,733	59,610	36,958
	Personnel director	38,673	41,889	27,104	48,398	51,171	27,238	55,280	61,228	37,981	48,498	51,769	32,614
GERMANY:	Chief executive	66,368	79,004	42,563	82,171	95,138	48,810	104,538	130,019	62,193	87,111	107,403	53,234
	Finance director	47,034	49,552	28,869	53,654	58,023	33,300	66,403	70,731	39,363	56,976	62,233	35,175
	Personnel director	42,807	46,233	27,337	53,863	56,979	32,701	63,014	68,705	38,236	55,532	59,672	34,246
FRANCE:	Chief executive	55,418	67,963	43,859	72,138	82,238	50,091	87,564	110,510	58,269	73,455	91,480	54,055
	Finance director	38,809	40,095	27,702	46,385	51,018	33,857	55,916	61,723	40,420	47,985	52,117	34,587
	Personnel director	34,309	36,575	25,602	46,184	47,802	32,158	56,286	61,009	39,533	46,237	49,749	33,016
UNITED KINGDOM:	Chief executive	46,000	54,130	35,726	59,220	67,110	43,622	74,490	86,160	56,142	68,380	83,670	53,549
	Finance director	31,980	34,570	24,129	39,240	41,750	27,073	51,380	55,940	36,920	43,840	48,190	31,805
	Personnel director	29,880	31,270	21,869	37,140	40,550	27,574	46,990	51,050	33,693	40,030	43,700	29,279
PORTUGAL:	Chief executive	22,649	25,080	24,704	33,045	36,534	34,848	47,152	51,621	46,765	36,303	40,440	27,952
	Finance director	18,008	19,511	20,112	25,098	26,922	26,507	33,980	36,048	34,384	26,832	27,864	27,436
	Personnel director	19,995	20,995	21,318	25,511	26,513	27,506	31,264	32,993	31,366	26,809	28,262	27,363
NETHERLANDS:	Chief executive	49,956	57,154	29,160	65,880	73,116	35,068	81,086	94,918	44,553	67,917	79,301	38,052
	Finance director	38,148	40,573	21,943	45,023	48,114	25,039	52,544	55,933	28,522	46,171	50,406	25,279
	Personnel director	36,765	37,899	21,107	45,590	46,511	24,679	54,625	58,892	29,426	45,786	49,347	25,681
BELGIUM:	Chief executive	54,607	58,543	26,510	68,934	75,685	32,131	86,768	102,445	41,558	72,655	84,018	34,875
	Finance director	37,052	39,361	19,324	46,011	49,782	23,012	56,879	61,806	27,316	48,382	52,219	24,138
	Personnel director	36,575	38,221	19,832	44,413	47,872	22,581	58,444	62,050	27,513	48,590	52,054	24,063
IRELAND:	Chief executive	39,104	42,231	24,072	45,332	51,776	28,477	58,532	68,004	34,982	48,845	54,477	29,418
	Finance director	30,879	32,377	19,426	35,758	37,165	21,550	43,666	46,308	25,570	37,257	40,260	22,948
	Personnel director	28,584	29,659	17,769	33,486	37,164	21,556	38,800	43,162	24,514	34,711	36,936	21,423
SWEDEN:	Chief executive	45,462	47,725	18,713	58,917	65,865	36,011	86,504	102,865	39,808	68,675	76,739	30,023
	Finance director	34,783	36,226	15,316	41,812	44,375	18,650	54,778	57,714	23,420	44,913	47,044	19,431
	Personnel director	31,894	32,862	14,539	38,815	41,812	17,573	46,543	52,117	21,149	40,441	43,290	18,194

SCOTTISH WIDOWS

Fund Management

Overseas Equities Edinburgh

Scottish Widows Investment Management is the fund management arm of Scottish Widows, with assets under management in excess of £12 billion. Overseas investments are an important element of its impressive track record and it now seeks to augment its team in Edinburgh.

The positions will combine both stock selection and fund management responsibilities within the framework of specialist teams. There are significant opportunities for broader career development and enhancement for talented investment managers throughout the Investment Management Group. Successful candidates will be graduates wishing to advance their careers in the investment industry and within a progressive environment in Scotland. Preference will be given to those with Far East or European Equities experience, but applications from candidates with other appropriate experience will be considered.

For a confidential discussion, telephone or write to: Willie Finlayson, Director, ASA International, Executive Search & Selection, 63 George Street, Edinburgh EH2 2JG. Tel: 031-226 6222. Interviews will be in London and Scotland.

ASA International

CHIEF ANALYST

Salary package up to £38,700 plus Company Car

Barclays Investment Limited (BIL), an important subsidiary of the Barclays Bank Group, has a vacancy for a Chief Analyst in its newly formed Investment Research Unit based in the City.

Reporting to the Investment Manager, the successful candidate will be required to run the Research Unit, which provides research and a share recommendation service covering all major investable world economies and a core list of 230 shares quoted on UK and overseas markets.

Applicants will have up to 5 years experience of fundamental investment analysis and some experience of private client fund management. Good oral and written presentational skills are essential.

As well as an attractive salary, the package includes the following:

- Territorial Allowance
- Non-contributory Pension Scheme
- Profit Sharing
- Subsidised loan and mortgage facilities
- Private Health Services
- Company car

With effect from May 1992, the salary package will be enhanced by performance related bonuses.

Applications should be made in writing, stating career and personal details to:

MR C A HAWKINS,
INVESTMENT MANAGER,
BARCLAYS INVESTMENT LTD.,
FLEETWAY HOUSE,
25 FARRINGTON STREET,
LONDON EC6A 4LP.

YOU'RE BETTER OFF TALKING TO BARCLAYS

Prospect — Sunny!

Credit Senior

£30-£35,000 + Benefits + Bonus

In a market-driven environment, a decisive and confident personality is vital. Our client is a major International bank urgently requiring such an individual with first class analytical skills to join its expanding credit team.

Working closely with the sales and trading areas to assess counterparty and product risk in a range of markets — expertise in derivatives is essential.

Probably in your mid 20's you will have an excellent qualitative degree, and 3-5 years credit experience with an Investment Bank. Fluency in another European language would give you the edge.

Fund Management — Europe

c.£30,000 + Benefits

This is a superb opportunity for an experienced European analyst who is ready to take on institutional fund management responsibility.

Our client is a major UK fund manager with a reputation for providing an excellent career path for outstanding analysts. The successful candidate will be given wide discretion and responsibility for everything from analysis and client visits to playing a leading role in strategy formulation and asset allocation.

To be considered for this role you must demonstrate a sound knowledge of a number of European markets together with appropriate language skills. A graduate in your mid-late 20's you will have gained a minimum of 3 years experience, ideally with a reputable fund manager.

For further details please contact Anita Barker, Duncan Adlam or Julie Byford on (071) 553 0873 (day) or (081) 579 5776 (evenings and weekends) or send your cv in complete confidence to 16-18 New Bridge Street, Blackfriars, London EC4V 6AU. Or fax (071) 553 3968.

BADENOCH & CLARK
recruitment specialists

Private Client Stockbroking

City

One of the UK's largest independent Partnerships

Return to traditional values, stability..... and a friendly atmosphere

Our client is a long established firm which has remained independent in order to maintain the traditional style of stockbroking which for many years has proved both successful and profitable.

The Partnership is extremely well capitalised with significant funds under management and, as a purely agency business, does not suffer from any potential conflicts of interest. Staff and clients have proved to be exceptionally loyal and this can be attributed to the friendly and professional style of management. Bureau and in-house systems provide an efficient back up to Partners, Associates and their clients.

The firm seeks experienced brokers with a high quality client base who wish to return to the pre 'Big Bang' stockbroking environment. Exceptional candidates will have the opportunity to attain partnership status.

For a strictly confidential discussion please telephone or write to John Field quoting reference 1397, at FLA, 16 Old Bond Street, London, W1X 3DB. Tel: 071-491 3811.

FLA
SEARCH, SELECTION AND CONSULTANCY SERVICES

CORPORATE FINANCE SUPPORT

transaction management . . . new issues administration

Manager

Salary to £35,000 + benefits

This prestigious UK Merchant Banking Group seeks to strengthen the transaction support function within its successful Corporate Finance Division through the appointment of a Manager.

This role will complement that of the transacting teams and includes advising on procedures and operational details and in particular, the administration of new issues. The key responsibilities are proof reading documents, verifying timetables and extensive liaison with registrars, printers and other banks, to make things happen. The position will also involve other administrative tasks within the Division.

This is a broad ranging role requiring a thorough knowledge and experience of the takeover code, the yellow book and the securities industry, coupled with a wide knowledge of operational procedures within a corporate finance environment.

If you are interested in this key management position, you should in the first instance forward your curriculum vitae, in strict confidence, to Richard Lyons, or call for an initial discussion.

INTERNATIONAL FINANCIAL RECRUITMENT CONSULTANTS

7 Birch Lane, London EC3V 9BY

Devonshire Executive Ltd
A member of The Devonshire Group Plc

Tel: 071 885 8050
Fax: 071 626 2092

Birmingham MidShires Building Society

Treasury Manager (Money Markets)

c£35,000 Package West Midlands

This leading Building Society has grown in recent years through a strategy of acquisition, diversification and organic development. In order to maintain this success in a highly competitive marketplace, it is restructuring and strengthening its financial management team, and now wishes to appoint an experienced treasury professional to play a key role in the Society's treasury department.

Reporting to the Treasurer your task will be to manage the Society's liquidity position by developing and implementing investment and short-term funding strategies which will enhance the profitability of the treasury function.

You will have extensive money management experience gained in a bank, building society or corporate treasury department, and a track record of devising and implementing successful investment and dealing strategies in the sterling money markets. You will have a sound practical knowledge of current money market instruments and techniques, including off balance sheet methods.

The salary offered for this position will be supplemented by an attractive benefits package including a subsidised mortgage, a car, and relocation expenses where appropriate. The position is based at the Society's Principal Office in Wolverhampton.

If you wish to apply for this position please write - in confidence - enclosing a CV and details of current remuneration to Douglas Austin Ref. 7203, MSL International, 32 Aybrook Street, London W1M 3JL.

MSL International
CONSULTANTS IN SEARCH AND SELECTION

Company Treasurer

BRISTOL TO £45,000 + BONUS

Microtel represents one of the most substantial business launches ever undertaken in the UK, and in the course of the next decade will grow to become a leading force in the telecommunications service sector.

With a £billion investment programme, we are developing and will operate, a new high quality, low cost, pocket portable communications network.

We are looking for an individual who has the experience and energy to establish our treasury function. This will include the design and implementation of cash management systems, creditor/debtor management, fund management, foreign currency transactions and control of large capital funding programmes.

Professionally qualified, with at least 5 years treasury experience, you will have an extensive knowledge of London Banking and Capital markets and a good understanding of project financing and taxation issues.

You must also be a strong negotiator and have the presence to represent the company in a range of forums.

Based on the outskirts of Bristol, the role offers a package including a Car and Relocation assistance. As a first step, please send your CV quoting reference FT/771 to: Microtel, Recruitment Department, St. James Court, Great Park Road, Almondsbury, Bristol BS12 4QJ. Tel: (0454) 618500.

No Agencies Please.

MICROTEL

TOP OPPORTUNITIES
SENIOR POSITIONS IN GENERAL MANAGEMENT**Chief Executive**
Dublin**Industrial Credit Corporation plc**

The Board of Industrial Credit Corporation plc (ICC) is seeking a new Chief Executive to succeed the present incumbent, who is retiring towards the end of this year.

ICC is a public limited company providing a broad range of financial services to the Irish business community. It has a record of consistent profitability, employs 350 people and its assets exceed IR£1 billion.

The role is to provide the creative

leadership and direction necessary to spearhead the activities of the organisation in meeting its future challenges and opportunities.

The requirement is for a record of sustained achievement and excellence as a top level executive in the financial services sector.

Those interested should please write - in confidence - to H.W.J. Flannery, MSL International, Newmount House, 22/24 Lr. Mount Street, Dublin 2 quoting reference 83549.

MSL International
CONSULTANTS IN SEARCH AND SELECTION

DIVISION PRESIDENT
and
MANAGING DIRECTOR
(EUROPE)

A decentralized N.Y.S.E listed corporation is seeking an experienced Managing Director to run a \$15,000,000/year European company manufacturing technical products for applications in the commercial vehicle industry. Markets are throughout the European Community, and includes the Soviet Union, the Eastern Bloc and also the Middle East.

This position requires either hands on European Managing Director experience or U.S. General Manager experience with direct European functional management responsibility. Candidates must speak English and either French or German and be willing to live in Europe.

If you are currently in or have had such a responsibility, can demonstrate a record of exceptional profit improvement and growth in a reasonably related business, and would like to investigate this opportunity further, please send your resume/curriculum vitae in confidence to:

Box A1501 Financial Times,
One Southwark Bridge, London SE1 9HL

YORK EXECUTIVE APPOINTMENT
GROUP MANAGING
DIRECTOR

The Scottish Heritable Trust PLC, an Industrial Holding Company with a turnover of approximately £100m, whose subsidiaries are principally involved in the distribution of oriental carpets, manufacture of entertainment fireworks, property and, in the USA, housebuilding and quarrying, requires an experienced Managing Director to work with and influence dedicated management teams. Reporting will be directly to the chairman and to the group main board of which the successful applicant will be a member.

This appointment will require a high level of business expertise and the drive and enthusiasm necessary to create a proactive culture within the subsidiary companies.

Applicants should be under 50 with at least five years' experience at Managing Director level, and an ability to conduct multi level negotiations.

The remuneration package will reflect the status of this appointment.

Please send your CV with covering letter in strict confidence to:-

Mr R Shephard, Director
The Scottish Heritable Trust PLC
Millbank House,
18-20 Skeldergate, York, YO1 1DH

To £45,000 plus benefits

Specialist Consumables

South East

Managing Director

Attractive role for successful, solutions orientated sales or marketing manager ready for general management accountability, to lead the development of a well established, fast growing and profitable plc subsidiary with dominant market share in chosen niches. Offers outstanding vehicle for international growth through product diversification and acquisition.

THE ROLE

■ Reporting into the UK plc Board, accountable for the management, performance and growth of the subsidiary, operating with a high level of autonomy and developing a team of some 30 staff.

■ Achieve planned expansion through personally leading the sales drive, developing key client relationships with major OEMs and the trade and identifying diversification opportunities.

■ Fully responsible for guiding a very successful small company with established momentum through its next critical phase of growth.

THE QUALIFICATIONS

■ Ideally a bright graduate with technical empathy, having an exceptional record of personal sales success in capital equipment, electronics, systems or a related field. Likely to be mid 30s. An internationalist with European languages being helpful.

■ Will have managed and developed a team, have been used to budgetary responsibility and maintained close involvement with key clients. Particular success in identifying and broaching new markets important.

■ Strong team building and motivational skills overlaid with structured business disciplines, proven commercial judgement and vision.

London 071-973 0889
Manchester 061-941 3818

Selector Europe
A Spencer Stuart Company

Please reply, enclosing full details to:
Selector Europe, Ref P457051L,
16 Connaught Place,
London, W2 2ED
071-973 0889

To £50,000 plus benefits

Division of UK plc

West of London

Sales and Marketing Director

New appointment for bright, well trained and commercially astute sales & marketing professional to join the Board of this c. £500m T/O Plc's house building division, poised to play an important part in the Group's expansion plans for the 90's. Prior knowledge of the sector is preferable, an ability to make a real impact on a broad remit and grow with the Company is essential.

THE ROLE

■ Reporting to the Managing Director, responsible for establishing strong sales and marketing disciplines to optimise competitive advantage in a difficult market as a platform for future growth.

■ Responsible for driving and achieving an agreed budget during a period of significant expansion. Develop an existing team of 16, implementing fresh initiatives in training, motivation, reporting and performance monitoring.

■ Accountable for sales support, promotional campaigns and product packaging providing input to investment decisions, product and corporate development supported by rigorous market analysis.

THE QUALIFICATIONS

■ Graduate calibre, aged 30-45 benefiting from a structured sales and marketing training in a blue chip environment, preferably house building.

■ Excellent track record of success in sales, leading to early sales management and team performance accountability. Will have devised and implemented significant promotional campaigns, controlling the marketing mix.

■ Initiative, energy and commercial acumen at a premium. Strong motivator and presenter who relishes accountability and can accommodate significant travel.

London 071-973 0889
Manchester 061-941 3818

Selector Europe
A Spencer Stuart Company

Please reply, enclosing full details to:
Selector Europe, Ref P455251L,
16 Connaught Place,
London, W2 2ED
071-973 0889

BANKING FINANCE & GENERAL

Executive Director

Leading Offshore
Corporate Services
and Trust Company

Isle of Man

Substantial Package

Our client provides a range of international corporate and trust consultancy and management services, based on the Isle of Man, and is a subsidiary of a quoted financial services group with a range of interests in the United Kingdom and Ireland. The organisation has an enviable record in developing an innovative range of products and services, utilising a multi disciplined team of executives whose experience spans the legal and accounting professions as well as merchant banking.

In addition to corporate and trust formation and management services, our client has successfully developed Public Company Registration work, international partnerships, exchange control planning and specialist consultancy services. Due to recent growth and a desire to restructure, the need has arisen to strengthen the management team by recruiting an executive chairman who will be responsible for co-ordinating the existing executive team to further expand the already strong client and product base. The appointee will report directly to the Group Chief Executive of the holding company, and will liaise extensively with other senior executives within the group. There will be a need for a reasonable degree of travel.

The requirement is for a rounded and mature individual (aged 35+) who can motivate a highly skilled technical team and strengthen the company's position in its principal markets, which are in the United States, the United Kingdom, Continental Europe and the Far East. Due to the nature of the business the successful candidate is likely to be a sales and marketing orientated individual with an appropriate professional qualification and a good understanding of the offshore business.

The rewards include an attractive basic salary and benefits and the opportunity to develop a stimulating career within this leading company.

For further information in strict confidence contact Robert Walker on 071-287 6285 (evenings and weekends on 061-672 6259). Alternatively, forward a brief resume to our London office quoting Ref: RW 1204.

WALKER HAMILL
Financial Recruitment Consultants

29-30 Kingly Street
London W1R 5LB

Tel: 071 287 6285
Fax: 071 287 6270

Nationwide
The Nation's Building Society

Head of Credit Control

A major role for a top credit professional

c£45,000 package.

Northampton

Nationwide Anglia Building Society is Britain's second largest building society, and in recent years it has established a significant commercial lending capability. The current portfolio is in excess of £1 billion and includes advances to building companies, housing associations, and smaller companies throughout the UK.

To ensure that the best credit standards and practices are observed, the Society wishes to strengthen its credit control procedures by the creation of the new position of Head of Credit Control, reporting to the General Manager (Finance). Key tasks will be to assess all major commercial credit proposals, to review and, where necessary, improve credit control procedures and systems, to manage and develop a specialist Credit Risk Unit, and to monitor and control the procedures relating to smaller advances throughout the Group.

As the successful candidate you will be a highly-experienced qualified banker with at least 10 years

successful record in the assessment and control of loans to commercial clients, probably involving experience in the Advances Control function of a major UK bank. You will be fully conversant with the analytical, legal, procedural and documentation requirements of commercial lending, and will have a record of sound credit judgement. You will be skilled in presenting and arguing out your views at the highest levels.

An attractive salary will be supported by a major benefits package which will include a car and a concessionary mortgage. Our client will also consider a contractual arrangement which might be more attractive to a senior banker wishing to round off a banking career with a new challenge.

If you have the experience and qualities sought and wish to be considered for this appointment please write - in confidence - enclosing a CV and details of current remuneration to Douglas Austin, Ref: 7205, MSL International (UK) Limited, 32, Aybrook Street, London W1M 3JL.

MSL International
CONSULTANTS IN SEARCH AND SELECTION

EQUITY FUND MANAGEMENT

Our client, a private investment company, is seeking to expand its investment team by appointing two new people to run equity portfolios invested in UK, European and Far Eastern markets, where the emphasis will be on stock picking combined with the use of derivative instruments.

Candidates, probably in their early 30's, will need to demonstrate experience of international equity markets and be committed team players. An attractive salary will be offered commensurate with experience.

Please contact Martin Symon, Senior Consultant
Jonathan Wren & Co. Limited, Financial Recruitment Consultants
No. 1 New Street, London EC2M 4TP
Telephone 071-623 1266 Facsimile 071-626 5259

JONATHAN WREN EXECUTIVE

Challenging opportunities for
financial consultants
London based

Merrill Lynch is planning to expand its private client base in the UK, Scandinavia and Portugal. We are looking for exceptional financial consultants who are fluent speakers of either Portuguese or at least one Scandinavian language. It would be an advantage to have the relevant TSA and NASD registrations. Remuneration will be largely performance related.

Merrill Lynch employs some 700 financial consultants outside North America providing a wide range of brokerage and related services to high net worth private investors. With the development of the Single European Market and the globalisation of financial markets, exciting opportunities exist within the firm for high calibre financial consultants.

Please write with c.v. to:
The Manager, Merrill Lynch,
Pierce, Fennier & Smith
Limited, TimeLife Building,
153 New Bond Street,
London W1 0RS.

Merrill Lynch
A tradition of trust.

ASLK-CGER Bank London Branch
seeks**Senior Interest Rate Swap Trader**

ASLK-CGER Bank London Branch seeks an experienced (2-4 year) Eurocurrency interest rate swap trader/originator to work with a highly motivated small team.

A mathematical bias and hands-on deal structuring/trading experience in European single and cross currency swaps in the 2-6 year maturity range are preferred.

Salary and benefits package negotiable according to experience.

Please send curriculum vitae to
G.P. Sorman, Assistant General Manager,
ASLK-CGER House, 22 Eastcheap,
LONDON EC3M 1EU

SENIOR FUND MANAGER

JAPANESE EQUITIES, CITY

We are retained by a major Institution to recruit a progressive, performance-orientated Fund Manager to take responsibility for the management of its substantial Japanese Equity Portfolios.

Candidates will have a disciplined investment approach, strong interpersonal skills and a high level of commitment. He/she will have extensive investment management experience and be able to demonstrate a successful track record of managing Japanese equities for a period of 3/5 years. The position carries a comprehensive package reflecting the importance of the role.

Those interested should send their curriculum vitae (including package details), or telephone in confidence, Richard A Fletcher, Managing Director, Fletcher Jones Ltd, 10 Charles II Street, St James, London SW1Y 4AA. Tel. (071) 839 9002, Fax. (071) 925 0502.

FLETCHER JONES LTD
EXECUTIVE RECRUITMENT

EUROPEAN-BASED SHIPYARD PROCUREMENT OFFICER

Intermaritime Group
Expanding private shipping company seeking accomplished procurement executive reporting to the Senior Shipping Executive.

The successful candidate will be an experienced negotiator able to source and supply high quality resources necessary to the shipping industry (marine equipment, steel, stainless steel, machinery, engines etc).

Although the position will be Geneva-based, the ideal candidate will be comfortable dealing in the Soviet Union and Eastern Europe.

Please fax resumes to
Rolf Spillmann
010 41 22-738 4680

International Corporate Banking Marketing Officer

c £32,000 plus excellent banking benefits

Midlands

While others contract, our client is committed to growing its large corporate customer base. A superb opportunity for a first class corporate banker to deal with the largest companies in the Midlands and North.

THE COMPANY

- Regional Office of large global banking group.
- Prime rated, well capitalised and well established in the UK.
- Excellent reputation for both corporate and structured financing.

THE POSITION

- Key member of small team covering the Midlands and North.
- Service existing core client base and develop new business in the large corporate market.

Market lending, structured finance and treasury products.

QUALIFICATIONS

- At least five years corporate banking experience with excellent analytical skills, credit training and proven marketing ability.
- Well educated, preferably aged 28-38 and professionally qualified.
- Resourceful self-starter who thrives in small highly professional team.

Please write, enclosing full cv, Ref BK2101
NBS, Bennetts Court, 1 Bennetts Hill,
Birmingham, B1 5ST
021-233 4656



FINANCIAL SERVICES RECRUITMENT

LONDON • SLOUGH • BIRMINGHAM • MANCHESTER • BRISTOL • GLASGOW • ABERDEEN

PROPERTY FUNDS

New £200m+ opportunity Exciting growth company Top Salary+ mortgage, pension, car etc

Britannia Life has entered into an agreement to acquire Crusader Life assurance company which will add some £800m of investment funds including a £200m diversified property portfolio. Britannia Life's young investment team has one of the best track records in the industry and as part of their growth strategy has been looking for an opportunity to develop a property fund for some time.

To build up this portfolio and its income stream the company wishes to recruit an experienced property investment manager. This is an excellent opportunity for a skilled professional to establish a new team capable of

converting a fairly random spread of properties into a strategically planned and growing large scale property fund.

Professionally qualified, you will have experience of development, funding and joint ventures probably gained as the 'number two' in an institutional team or possibly with a developer or the profession.

This is an exciting opportunity to take a lead role in developing a major business for a young and aggressively growing group. The remuneration package and more particularly the career prospects will attract the highest calibre of young professionals. Relocation to Scotland is available, if appropriate.

To apply, in confidence, please send a detailed CV including salary requirements to Douglas Kinnaird, PA Consulting Group, Number Two Blythswood Square, Glasgow G2 4AD, quoting Ref: SL266/FT.

Britannia Life

PA Consulting Group
Creating Business Advantage

Executive Recruitment • Human Resource Consultancy • Advertising and Communications

BUSINESS DEVELOPMENT

Herts based

CORPORATE LENDING MANAGER

c £35,000 package + car

A highly respected financial services Group is building on its success to date by opening a new branch operation in Hertfordshire to provide quality banking services.

As part of a small team, you will play an integral role in the development of new business in the Northern Home Counties. Responsible for marketing the full range of services provided by the Bank, you will be targeting small to medium sized corporates and substantial private investors. This broad based role will encompass the presentation of credit analyses and the detailed structuring of lending proposals.

Ideally, you will be ACIB qualified, aged 30-40, with a proven track record of obtaining new corporate business and have a thorough understanding of banking operations and procedures. Knowledge of and credibility with the local business community is essential.

You will enjoy the challenge of marketing, be self motivated and be seeking to progress your career further within a prestigious group.

If you are attracted by this outstanding opportunity to work outside London, please telephone or send your curriculum vitae in confidence to Richard Lyons.

INTERNATIONAL FINANCIAL RECRUITMENT CONSULTANTS

7 Birch Lane,
London EC3N 9BY

Tel: 071 895 8050
Fax: 071 626 2092



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APPOINTMENTS ADVERTISING

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& Friday
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Edition only.)

NORWICH UNION FUND MANAGERS LIMITED

LONDON BASED BUSINESS DEVELOPMENT MANAGER CORPORATE PENSIONS

Norwich Union, still enjoying the continuous growth of the last few years, is a UK market leader and one of the top ten insurance and financial services groups in Europe.

Norwich Union Fund Managers Limited (NUFM), is a member of IMRO and manages funds in excess of £18 billion. Its Investment Marketing Team is now expanding operations in the corporate pensions market and invites applications from enthusiastic, self-motivated individuals who will operate from a newly-created London base.

Successful applicants will have established links with a wide selection of leading consulting actuaries and other pensions intermediaries and be able to demonstrate a proven track record of new business generation.

Key tasks include the promotion of NUFM's investment service at the very highest level. You will join a team which has overall responsibility for client presentations and developing investment marketing for the Group's corporate investment products.

Likely to be over 35, an independent and critical thinker, you must also be numerate and have highly developed written and verbal communication skills.

A fully competitive salary, backed by a first class benefits package including performance related bonus and comprehensive relocation assistance where appropriate, awaits the successful applicant.

We are an equal opportunities employer and happy to consider applications from registered disabled persons. If you measure up to the qualities highlighted in this advertisement, write now with full cv to:

Miss Deirdre Cullen
Personnel Superintendent
Norwich Union Insurance Group
Surrey Street
Norwich
NR1 1AN

or ring Julie Piper on 01603 183559 for an informal chat.



Merchant Banking

Baring Brothers & Co., Limited wishes to recruit an Executive to work on their expanding Scandinavian business as part of their successful London-based European team.

Suitable candidates will probably be university graduates, between 25 and 28 years old, possessing a high degree of numeracy and an ability to communicate clearly both orally and in writing. Experience and relevant qualifications will be an advantage.

Salary is negotiable according to experience and benefits will include mortgage subsidy, non-contributory pension scheme and BUPA membership.

Applicants should write, enclosing a curriculum vitae, to:

N. D. Brown, Director,
Baring Brothers & Co., Limited,
8 Bishopsgate, London EC2N 4AE.

APPOINTMENTS WANTED

SALES PERSON

Sales Person with Political Consulting and Economic Development Background seeking new challenge.

Write:
P.O. Box 11028
St. Petersburg, FL 33733
USA

CHRISTIAN TECHNICAL/ PRODUCTION DIRECTOR

Manufacturing and service industry background seeks appointment as M.D. of small to medium size company. 43 years, married - 2 children. Please reply to Mr. Barry Richardson, 17 Baskin Lane, West Green, Bucks HP9 2YT or phone 04946 73467 after 7.00 pm.

EUROBOND/FUTURES BROKERS

A leading money broker has vacancies for Junior Brokers and would like to interview applicants with Eurobond and futures broking experience.

Please write Box A1510,
Financial Times,
One Southwark Bridge, London
SE1 9HL

THE BANK OF BUTTERFIELD

CAREER OPPORTUNITIES IN BERMUDA

The Trust Department of The Bank of Butterfield, due to re-organization and growth, is seeking qualified applicants for the following vacancies:

Trust Manager

Duties/Responsibilities: Under the direction of the Senior Manager - Trust, the Manager will assume responsibility for a group of Trust Officers and Administrative Assistants who are charged with daily administration of a diversified portfolio of Trusts, Companies and Agency Accounts. The Manager's principal objectives will be to ensure that:

- a high level of client service is achieved and maintained;
- the technical abilities of the staff are maximized;
- fee income is appropriate and charged on a timely basis;
- account reviews are up to date and effective.

Qualifications/Experience:

- A university degree or professional qualification in the Trust area.
- Extensive technical knowledge of offshore trust work and related aspects.
- At least ten years experience in Trust work.
- Ability to motivate and manage staff.

Trust Officer

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Price Waterhouse

ACCOUNTANCY COLUMN

US rules may be tightened after thrifts' failures

By Pratap Chatterjee in Berkeley, California, and David Waller in London

THE ROLE that loose accounting rules played in the rise and fall of the US savings-and-loans, or thrift, industry, has been spelt out by Mr Richard Breeden, chairman of the US Securities & Exchange Commission. The collapse of the industry is expected to cost US federal government insurers about \$500m (£280m).

"Misuse of accounting standards played an extremely large and, in some ways, pivotal role in the reckless growth of the thrift industry, as well as in concealing the depth of its problems," Mr Breeden said.

"If misused, accounting principles can conceal insolvency from creditors, investors and regulators," he continued. "In some cases... the accounting rules may facilitate fraud on investors. In other cases accounting principles may be used to justify postponing treatment or resolution of problems in firms at the very time that they may be expanding through the use of publicly-guaranteed funds."

Mr Breeden, who was speaking last September to the US Senate's banking, housing and urban affairs committee, then described in chilling detail how accounting rules helped create an illusion of solvency and prosperity which was used to justify "not only expansion, but also dividends, enormous salaries, acquisitions and many other expenditures that drained cash from failing firms."

Since Mr Breeden made his speech, some large banks in the north-east of the US have collapsed, adding to pressures for a radical overhaul of accounting in the banking sector.

In February this year, the Financial Accounting Standards Board (FASB)

decided to study the possibility of allowing banks to set up separate reserves for loans in temporary difficulties. FASB is also working on standards which will require banks to account for debt securities at cost or market values, whichever is the lower, a system known as Locom. Similar standards are being considered for all other forms of financial instrument.

The central objective of regulators is not simply to eliminate some of the more extreme accounting abuses found in the savings-and-loans industry. It is, to quote Mr Breeden, to help regulators, investors and other users of accounts "to make a much more meaningful assessment of the real economic value and risk exposures of a financial institution."

Under considerable pressure from the SEC, the US standard-setters are formulating proposals which will require financial institutions to account for securities and investments at Locom. Stocks and bonds held for investment purposes are now valued at cost, irrespective of their value in the market.

According to the regulators, the change would make the accounts of financial institutions more meaningful than they are now - and eliminate "cherry picking". This is a form of accounting arbitrage, much practised by savings-and-loans groups, where financial institutions take advantage of the accounting differences between trading and investment portfolios to maximise profits and mask losses.

The technique was simply to shuffle securities between the two different

types of accounts when their market values changed. "The continued use of historical cost accounting for investment securities has enabled institutions to 'manage' the timing of gains and losses," Mr Breeden said in his speech. "Gains trading, i.e. selling profitable positions and holding losing positions... had the effect of inflating the thrift's apparent short-term profitability whilst inevitably leading to declines in future yields."

Banks are reluctant to identify bad loans because doing so can affect their income statements adversely

To remedy this, the accounting standards arm of the American Institute of Certified Public Accountants has suggested that all debt securities will have to be accounted for at Locom unless it is possible to prove that the investment is being held to maturity.

There have been two principal objections to this. First, some institutions believe the rules will interfere with normal investment decisions, forcing them to divest themselves of debt securities less likely to show short-term gains. Second, the institutions say the rules apply only to assets and not to liabilities. That objection may be met in the long term as FASB is already working on a project to set standards for all sorts of

financial instruments. In time, this is likely to tackle both sides of the balance sheet - but not until Locom has become a formal requirement.

FASB is now working on defining the circumstances when loans can be described as "temporarily impaired", a new classification which would cover those loans where original values have fallen because the debtor cannot service them fully. The regulators say this move will make it easier to assess the real financial health of an institution.

At present, if a bank declares a loan bad, it must be written down fully against reserves. This discourages banks from declaring the true extent of their problems. According to Mr Paul Rohan, project manager at FASB, the board would probably allow banks to set up a special smaller reserve for impaired loans rather than having to write them off completely. Banks say that they would be less reluctant to identify bad loans if doing so did not have an adverse effect on their income statements.

For example, a bank lends a developer \$100 for a property under an agreement by which the developer pays the bank \$16 a year for 10 years. Normally, the bank would take \$10 off the original principal and book \$6 as income, but because of the recession, the developer ends up paying only \$10 for a particular year.

Under present accounting standards, the bank is expected to categorise the loan as "non-accruing" and use all payments to pay off the principal, so that none of the \$10 payment shows up in the income statement.

Bankers want to change this by splitting the loan in the accounts into two parts - a performing loan and a temporarily non-performing loan. The advantage of this is that there would be less of a blot on the bank's income statement.

Analysts are concerned that banks will be obliged to cut back their lending and investing if they are hobbled by very conservative accounting. Indeed, some argue that conservative accounting militates against private-sector interest in buying what is left of the failed savings-and-loans institutions.

For example, acquired intangibles do not count towards the Bank of International Settlements minimum capital requirements of 8 per cent of assets. In other words, if a bank buys a \$100,000 credit card portfolio at a premium - based on its expected cashflow - no matter how sound the cashflow, it cannot include this premium as part of its 8 per cent minimum capital.

The Resolution Trust Corporation, the federal body that is required to salvage failed savings-and-loans institutions, says this deters banks which would otherwise buy savings-and-loans portfolios.

FASB does have a project to look at measuring identifiable intangibles, but it is not expecting to publish recommendations on this issue until the end of the year.

The regulators and standard-setters hope that the package of measures will make it easier to spot the next financial crisis at the earliest possible time - not when it is already too late.

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For an informal discussion contact Derek Joseph of HACAS who is advising the Association on this appointment on 071-407 5634. Network Housing Association is an Equal Opportunities employer. Closing date: 12th June 1991

On Thursday 6 June 1991

The Financial Times will be publishing the Securities Industry Examinations results. For further information please contact Teresa Keane on 071 407 5634

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THE ROLE

■ Reporting to the Managing Director, with a high degree of autonomy for innovative financial engineering and development of international funding sources.

■ To design, negotiate and manage the financing of major projects, reporting on fund performance and profitability, and ensuring statutory compliance for the subsidiary's activities.

■ To contribute to business development, acquisition planning, resource utilisation and the overall strategic plans for growth and diversification.

THE QUALIFICATIONS

■ Probably 30's/early 40's, professionally qualified, internationally trained, computer literate. Knowledge of contract law, language skills and further business qualifications highly advantageous.

■ Extensive experience of international project finance involving institutional and commercial partners, with proven success in contract negotiation, fund management and effective financial control.

■ Creative but commercially based, with financial and secure management; substantial funds, high level discussions and to sustain international credibility. Seasoned traveller relishing challenge and variety in a demanding environment.

London 071-973 0889
Manchester 061-941 3818

Selector Europe
A Spencer Stuart Company

Please reply, enclosing full details to:
Selector Europe, Ref F19905124,
Bridge House, Ashby Road,
Bide, Dorset DT1 1JH.
Cheshire WA14 2JF.
061-941 3818

c. £40,000 + bonus + benefits

Major National Service Business

Flexible location

Director of Finance

First class opportunity to join newly formed management team of recently created £350m turnover business, part of major national service provider. Seasoned finance professional sought to make a vigorous contribution to achievement of stretching performance targets. Fascinating opportunity to influence the profitability and performance of thriving business in dominant market position.

THE ROLE

■ Key member of top team responsible for developing strategy and policies to achieve challenging financial and quality targets.

■ Establishment and management of an effective financial infrastructure and the preparation of financial and management accounts. Development and control of the financial and information systems necessary to manage the business and effectively measure performance.

■ Lead, motivate and develop a team of 250 staff.

THE QUALIFICATIONS

■ Qualified accountant with minimum 5 years post-qualification experience in a commercial service led environment, with a record of achieving successful change.

■ Record of implementing MIS and rigorous financial disciplines and managing and motivating a large finance team.

■ Commercial and market-orientated focus. Able communicator with proven influencing skills and the ability to perform well both as a leader and a team member.

London 071-973 0889
Manchester 061-941 3818

Selector Europe
A Spencer Stuart Company

Please reply, enclosing full details to:
Selector Europe, Ref F2500511,
16 Courthouse Place,
London, W2 3ED
071-973 0889

ASSISTANT TREASURER

City

Age 28-35

c£40,000 + Benefits

An opportunity has arisen within the treasury function of a worldwide financial services group, with a turnover currently in excess of £2.9 billion. The range and complexity of financial policy issues facing the group is greater than ever, and it is in this atmosphere of challenge and increasing diversity that the appointment of an Assistant Treasurer is being made.

Reporting to the Group Treasurer, the Assistant Treasurer will initially be responsible for:

- monthly management reporting of Treasury transactions
- group cashflow and debt reporting
- management of the installation and development of Treasury Computer System
- liaison with controllers on accounting of finance subsidiaries
- review of all banking transactions
- supervision and training of staff

The ultimate strategic objective will be to assist the Group Treasurer in the assessment of group wide capital requirements, dividend and debt capacity.

The successful applicant will be an accountant with 2-3 years post qualification experience, preferably within a Corporate Treasury environment. Excellent communication and inter-personal skills are a prerequisite.

This is an excellent opportunity for an ambitious accountant who would like to develop a career in the treasury field within a progressive, dynamic organisation. Remuneration will include a high basic salary and an executive car and other benefits.

Interested applicants should telephone Tony Barnes on 071 437 0464 (fax 071 437 0597) or write to him, enclosing a detailed CV to the address below.

ROBERT WALTERS & ASSOCIATES

RECRUITMENT CONSULTANTS

Queens House, 1 Leicester Place, London WC2H 7BP
Tel: 071 437 0464 Fax: 071 437 0597

Assistant Financial Controller

Retail Operation

Malawi

£neg. + tax free sum + exc. benefits

Our client, a prestigious British International Company, has the management agreement to manage a large trading/retail operation. It operates wholesale stores throughout the rural areas, large wholesale depots in the urban areas as well as supermarkets retailing food and non-food items. Goods are both imported and sourced locally. The present Financial Controller, who reports to the M.D., now needs a No.2 who can take over from him in due course.

It is essential that candidates who are qualified Chartered or Management Accountants have had at least two years experience within a substantial retail operation. Some overseas experience would be ideal but not essential. The preferred age range is 28-35 but more important is the right experience.

Terms and conditions of employment are excellent and take full account of the location and the expatriate nature of the job.

Please write - in confidence - will full career details to A.D. Percival.

Ravenscroft & Partners

Search and Selection
20 Albert Square, Manchester M2 5PE

EAST MIDLANDS

c £40,000 + CAR

Finance Director

For a division of a British group whose FMCG products lead their sector. This success is firmly based on design excellence, quality and service in some of the most competitive and price sensitive markets.

Reporting to the Managing Director you will contribute to strategic and operational decision making as part of a strong Divisional Board. Responsibilities will include developing a finance team capable of delivering tight financial control and management. Rapid and effective reporting, cash flow and asset management will be ongoing issues. The role is broadly commercial with some emphasis on costing, pricing and stock control.

A qualified accountant, your technical and management skills should be well proven in fast moving, volume

manufacturing businesses. You should be able to quickly focus on the problem areas and bring a decisive and innovative approach to solving them. The role is high profile with ample scope for reputation building.

Please send full personal and career details, including current remuneration level and daytime telephone number, in confidence to David Owens, Coopers & Lybrand Deloitte Executive Resourcing Ltd, 43 Temple Row, Birmingham B2 5JT, quoting reference D389.

Coopers & Lybrand
Deloitte
Executive Resourcing

CORPORATE AUDIT

South East

Package c.£35,000

SENIOR SYSTEMS AUDITOR

Our client is one of the UK's outstanding providers of insurance and financial services. Its Corporate Audit function has gained the reputation of providing services to the highest standard throughout the Group - both in the UK and internationally.

An innovative Audit Professional, you will be a key player within this team providing strategic and operational review expertise at all management levels.

Major responsibilities will include:

- providing independent systems evaluations and consultancy across the Group
- appraisal of computer applications, systems & controls under development - within an IBM 3090 environment
- undertaking a variety of wide-ranging special project work and investigations.

Preferably a qualified accountant with substantial technical and investigative skills, you will be used to conducting multi-task audit projects, often to tight deadlines and possess strong communication skills.

Career prospects are excellent, with the Corporate Audit Group being a regular springboard to senior line financial management.

Please call me, Kathryn Longworth, for an informal discussion or write enclosing a full CV to:

ZEALAND JAMES & COMPANY
17 Thame Park Road,
Thame, Oxon, OX9 3XD.
Tel: 0844 261200
Fax: 0844 261690

STRATEGIC ROLES IN FINANCIAL MANAGEMENT

Based: London/Southern Home Counties

This major UK-based, multiple-site retailer, a main division of a Top 100 company, possesses a portfolio of clearly positioned products addressing the distinct consumer needs of in excess of 4 million customers per week. It has a strong and continuing track record of substantial and profitable growth which has arisen from the development of its core business and a series of rapidly integrated acquisitions. As the Group is set for further development, it seeks to maintain the highest levels of expertise and professionalism within Finance and therefore wishes to attract three individuals of the highest calibre to add to the development of all levels of management information and decision making capability.

Finance Manager

c. £35,000 + Car + Benefits

Reporting directly to the Financial Controller, the Finance Manager will head a team responsible for producing financial and statistical data on business performance. You will supervise all monthly management reporting encompassing issues such as sales, cash flow, profitability of retail units within the Company and Taxation. You must possess a strong systems ability combined with a talent for highlighting issues which are vital to senior executives throughout the organisation.

This position will appeal to a qualified accountant, aged 25-30, with a minimum of two years' PQE gained within the reporting function of a major Plc. You will have a mature commercial approach and display the highest level of commitment in your career to date with a desire to form part of a highly motivated team. Reference MH839.

Assistant Finance Manager

c. £23,000 + Car + Benefits

Reporting to the Finance Manager, you will form part of a team addressing all monthly management reporting issues and as a result will be expected to have a strong working relationship with all members of Finance and other departments throughout the company. Contributing to the development of a highly sophisticated computerised system, you will also be responsible for managing day to day reporting issues within a transaction orientated business along with the handling of special projects.

This position is likely to attract a finalist CACA/CIMA or newly qualified accountant, aged 23-28, with at least two years' experience of a major Group. You must possess good commercial judgement combined with strong technical skills and have the ability to liaise at all levels of operational management. Reference MH840.

Business Development Accountant

c. £35,000 + Car + Benefits

Reporting directly to the Financial Controller, the Business Development Accountant will form part of a team to strengthen forecasting, planning and analysis within Finance, developing the role into a function providing commercially orientated advice in relation to future business direction. You will have the ability to identify and develop systems-based solutions to provide superior levels of management information, allowing time to address commercial issues facing the Company.

The successful candidate will be a qualified accountant aged 25-30 with a strong academic background and a minimum of two years' PQE gained within a Blue Chip environment. Other essential attributes will include first class interpersonal skills, strong motivational qualities and a highly inquiring and analytical mind. Reference MH838.

The company is committed to offering career progression at the earliest opportunity and has a pro-active approach to staff development. Individuals who consistently perform well and strive for excellence can expect opportunities to arise within both this division and other group companies. To discuss these outstanding opportunities in greater depth, please contact Mark Rowley on 0483 303300 (daytime) or Michael Herst 081-502 1247 (evenings). Alternatively, write to them at the address below, enclosing a full curriculum vitae, quoting the appropriate reference number.

HARRISON WILLIS

10 Quarry Street, Guildford, Surrey GU1 3UY. Tel: 0483 303300
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Group Accounting Manager

c.£33,000 + Car

Our client, based in NW London, is an international medium-sized plc with a very successful record of organic growth in this country and overseas. The Group's skills in product design and marketing, coupled with strong and effective management, have ensured that its familiar branded consumer products are among the market leaders in the UK and have an established presence in continental Europe and the USA.

The Group is now seeking a versatile Group Accounting Manager to further strengthen its corporate Head Office and manage the increasing demands for information required by the Board.

Responsibilities will include the preparation and critical review of the Group's monthly management accounts, profit and working capital forecasts, and the Group budget; technical issues; policies and procedures; and support for cash and currency management. In addition the Group Accounting Manager will be expected to contribute to the consolidation of the annual published statutory accounts. The position reports to the Group Financial Controller.

Applicants should be qualified accountants with excellent commercial experience gained either at the centre of a medium-sized Group or in a relevant operating company role. A hands-on flexible approach is required, together with sound personal organisation, and the ability to get results from a small team and from overseas finance staff. Strong technical accounting skills and experience of PC spreadsheets are essential.

Please apply in confidence quoting Ref. L478 to:

Brian H Mason
Mason & Nurse Associates
1 Lancaster Place, Strand
London WC2E 7EB
Tel: 071-240 7805

Mason & Nurse
Selection & Search

Group Financial Controller

Milton Keynes

£ negotiable

A high profile appointment working in the Group Headquarters of a leading electronics engineering company with interests in UK, Europe and the USA. The Group is highly successful and has experienced significant growth over the last 10 years.

Responsibilities encompass management of the Group accounting function, liaison with Company Financial Managers, consolidated period management and financial accounts and budgets.

The ideal candidate will be young, fully qualified and with management and computer experience. They will respond to the challenges presented by a progressive, dynamic and growing organisation whilst producing results.

Senior Financial Accountant

Due to the continued growth of this Group, they are also looking to strengthen their existing Head Office accounts team by appointing a Senior Financial Accountant to undertake a variety of tasks. Excellent career prospects.

Applicants should be young, dynamic and recently qualified.

Please write, enclosing your current CV stating your present salary to: Leslie Simpson, Chamberlains Personnel Services Limited, Forest House, Sherwood Drive, Bletchley, Milton Keynes MK3 6ES. Telephone (0906) 366766.

CHAMBERLAINS



ROBERT HALF
Financial Recruitment Specialists

FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

INVITE YOU TO A
BUSINESS BREAKFAST

THE DEMOGRAPHIC REVOLUTION

The implications of a shrinking workforce
for recruitment policy

ON TUESDAY 18TH JUNE 1991
AT THE SAVOY HOTEL, STRAND, LONDON WC2
8.30AM TO 9.30AM

The talk will be given by Jane McLoughlin, former Business Editor and Woman's Editor of The Guardian and author of 'The Demographic Revolution' (Faber 1991).

By 1994 there will be 1.2 million fewer school leavers entering the workforce than in 1988.

The talk will address the implications of this shortfall for employers and will cover:

- Changes in Recruitment Policy and Standards.
- How the workplace and traditional work systems must adapt.
- Implications for employers' spending and investment.

- How the demographic revolution will alter people's expectations from work.
- The effect upon Financial Institutions.

Jane McLoughlin has worked on the staff of the Daily Mirror, Daily Telegraph, Daily Mail and Observer and was both Business Editor and Woman's Editor of The Guardian. Now a freelance journalist and author, Jane is a regular contributor to the Financial Times and Evening Standard City Pages. Her books include 'Asia's New Industrial World' (as co-author), 'Women and Employment' and most recently 'The Demographic Revolution'.

Please note that places at the breakfast are strictly limited

If you wish to attend the Business Breakfast, please write to Rachelle Nelson at Robert Half, Prepost, Walter House, Bedford Street, 418 The Strand, London WC2R 0BR. (Telephone: 071-636 3545).

Unser Mandant ist in Europa ein führendes, börsennotiertes Beratungsunternehmen für den Finanzbereich. Im Rahmen der weiteren erfolgreichen Expansion hat er ein neues Büro in Deutschland (Düsseldorf) eröffnet. Für diese einzigartige Herausforderung suchen wir für unseren Mandanten einen Mitarbeiter mit Erfahrung im

Controlling/WP/Rechnungswesen oder Banking für Beratung im Finanzbereich

Der geeignete Kandidat hat/ist:

- 28-33 Jahre jung
- 3-7 Jahre Erfahrung im Finanzbereich z.B. Controlling/Finanz- und Rechnungswesen/Revision innerhalb industrieller Unternehmen.
- Wirtschaftsprüfungsgesellschaften oder kaufmännische Fachkenntnisse erworben im Bank/Finanzdienstleistungsbereich
- Abgeschlossenes Hochschulstudium
- Hervorragende Kommunikationsfähigkeit und einen ausgeprägten Sinn für das Geschäftliche
- Ausdauer, Selbstmotivation und Flexibilität
- gute englische Sprachkenntnisse

Für weitere Informationen steht Ihnen Herr Eduard Hoebrechts unter Telefon (0031) 40 435 115 oder Herr Terry Benson unter Telefon (0044) 71 631 2000 gerne zur Verfügung. Auch wenn Sie im Moment nicht an einen Wechsel denken sollten Sie mit ihnen sprechen.

Er/Sie trägt die Verantwortung für:

- selbständige Betreuung von Aufträgen für (internationale) Kunden
- unterhalten von Kontakten bis auf höchster Managementebene
- Entwicklung von Marketing Strategien.

Es erwartet Sie ein junges, dynamisches Team mit hohen Gestaltungsmöglichkeiten. Ein attraktives Grundgehalt, Bonusregelung, Firmenwagen sowie hervorragende Aufstiegsmöglichkeiten.

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Ihre schriftlichen Bewerbungsunterlagen können Sie, unter Angabe der Referenznummer EKI/89 an folgende Adresse richten:

Michael Page International,
Esplanada Gebouw, Begijnenvoer 35,
5611 EK Eindhoven, The Netherlands.



Michael Page International

Personalberater im Finanzbereich
London Amsterdam Antwerp Brussels Eindhoven Paris Lyon Sydney Melbourne

MANAGEMENT ACCOUNTANT SALARY C£20K

Required by an established company engaged in food processing and distribution, to act as assistant to the financial controller. An experienced accountant, part or fully qualified, will be responsible for preparation of monthly management accounts, cash-flows, budgets, etc. Must be computer literate and proficient in use of spreadsheets.

Please write with full C.V. to Box A303, Financial Times,
One Southwark Bridge, London SE1 9HL

QUALIFIED ACCOUNTANT

Fast growing company based in Central London requires dynamic accountant with a flexible attitude. Must be computer literate and have all-round experience. Salary commensurate with experience.

Please write Box A1518, Financial Times, One Southwark Bridge, London SE1 9HL or fax: 071 235 0775



Head Office

PRINCIPAL MANAGEMENT ACCOUNTANT

Develop your future as you develop our financial monitoring systems

Bristol

£25,000 to £28,000 + car + bonus

The National Rivers Authority is the strongest environmental protection agency in Europe, set up to safeguard the rivers, lakes and coastal waters of England and Wales. We have recently established a new head office in Bristol, and are expanding the finance function to give us the opportunity to develop our management reporting systems.

Initially you will work closely with the ten regions and all the head office departments that make up the NRA, to create and update reporting procedures, develop monitoring systems and assess information needs. As this is a rapidly changing environment, ad hoc projects will be many and varied. However, your key task will be the collation and interpretation of monthly management information. As a high-ranking member of the finance function, you will prepare reports and make presentations to senior managers.

A qualified accountant, ideally educated to degree level, you will have substantial

experience of working in large organisations and highly developed commercial acumen. Superb interpersonal skills are essential, along with a working knowledge of spreadsheets.

Prospects are excellent, both at head office and at regional offices throughout England and Wales. We offer a salary between £25,000 and £28,000, depending on experience, plus a range of excellent benefits including a contributory lease car and performance bonus. Relocation assistance may be available, where appropriate.

If you would like to use your skills and experience in this challenging organisation, send your cv (along with details of current salary), quoting ref. 5125/PJ/FT to Patrick Johnson, PA Consulting Group, 123 Buckingham Palace Road, London SW1W 9SR. Closing date for applications is 7th June 1991.

NRA is an Equal Opportunities employer.

WEST SUSSEX

TO £35,000 + CAR

Financial Controller

Turning over some £30m our client is an established and successful Group providing services to the travel industry. This is an exciting and dynamic business in which the critical success factors are speed and efficiency.

Reporting to the Managing Director the Financial Controller is a senior member of a young management team and your prime focus is to deliver timely and reliable information for the vital controls needed to manage its operations effectively and profitably. Managing some 20 staff you will be responsible for the full finance and accounting function and a key initial task will be to assist in the development of an improved IT and management information system.

A qualified accountant, you are likely to be aged in your early 30's with a proven track record as a thoroughly

commercial finance manager. Personal attributes must include a high order of communication and people management skills in addition to the energy, drive and enthusiasm to be accepted as a key player in the management team.

Please send full personal and career details, including daytime telephone number and current remuneration level, in confidence to Chris Howarth, Coopers & Lybrand Deloitte Executive Resourcing Ltd, 76 Shoe Lane, London EC4A 3JB, quoting reference CH829 on both envelopes and letter.

Coopers & Lybrand
Deloitte Executive Resourcing

CHIEF INTERNAL AUDITOR**£250,000 p.a. PACKAGE**
CENTRAL LONDON**INVESTORS
IN
INDUSTRY**

3i is Britain's largest investment capital company - investing in businesses large and small, in the UK and internationally. Our portfolio totalled £2.3 billion at 31st March 1990 with investments in most sectors of industry and commerce, in over 4000 companies.

We now wish to appoint a Chief Internal Auditor to lead a professional team responsible for the audit of 3i's accounting, financial and operating systems. You will initiate reviews of procedures and internal controls used in our UK, European and International offices. This involves both regular review and a variety of special assignments. Your prime task will be to ensure that 3i maintains its high control standards in the prudent management of the Group's substantial assets. The Group has an Audit Committee composed of Non-Executive members of the 3i Group Board.

The need is for a qualified Accountant, ideally aged early 40's, who has experience of internal audit gained with a 'blue-chip' multinational company. Essential personal attributes are proven leadership skills, sound commercial judgement and the ability to act independently when necessary. A second European language would be an asset as our international network continues to grow.

The remuneration package of around £250,000 p.a. reflects the importance we place on this position which is based at our office in Central London. A relocation package is available if necessary.

Please write with a comprehensive CV to: Paula Bates, 3i plc, 91 Waterloo Road, London SE1 8XR Tel: 071-928 3131 ext. 2772.

FINANCE DIRECTOR**Humberside****circa £40,000 + Car + Bonus + Benefits**

An impressive track record of growth over the last 2 years and the continuing prospect of further exciting developments in products, markets and corporate structure makes this opportunity to head up the company's finance function extremely challenging.

The company is a wholly owned subsidiary of a rapidly expanding international group with manufacturing facilities in Canada, USA, UK, Mexico and Australia with intentions to expand further into Europe. Candidates must be qualified accountants with a considerable number of years' manufacturing experience who can contribute actively and positively to the direction and policy of the company as well as control the day to day financial operations.

Good interpersonal and communication skills are prerequisites for this position as you will be part of a small but strong management team with complete autonomy for running the business. Your inherent commercial skills will be augmented by experience in MTS and in facilitating systems changes to reflect and encourage increased quality.

To return, an attractive and comprehensive remuneration and benefits package is provided which includes the opportunity to achieve significant bonus earnings.

The rate of business expansion will create substantial career development opportunities for the chosen candidate.

Please reply in confidence, enclosing a full CV and quoting reference L/115 to David Adnan

**Selection & Search**

1 The Embankment, Neville Street, Leeds LS1 4DW

HEAD OF LOGISTICS (Equities Division)

To ensure the effective provision of centralised support services, by managerial strength, financial & IT awareness.... and business understanding!

The management of the Equities Division of this leading investment bank has come to rely heavily upon its staff function, led for some years by a Chief of Staff who is now moving to a significant position within the bank's European group. As an essential member of the management team, the Chief of Staff manages the interface between the Division and its support groups, establishing procedures and priorities, controlling costs and monitoring the effectiveness of the services provided; perhaps even more importantly, the Divisional Director looks to the role for broad-based analysis and advice on every aspect of the operation and its business management. Ideal candidates will be comfortable in and around the Equities marketplace (although our need is for knowledge of, not detailed expertise in) but above all they will be proven managers, with authoritative and influential strengths, and effective communicators (both orally and on paper). They will be expected to deal on equal terms with the senior professionals in the finance, IT, personnel and organisation departments. The job demands project management skills, a powerful intellect, top calibre inter-personal strength and the ability to prioritise a heavy workload. Management consultancy, probably at Managing Consultant level, could well be a relevant background, but that is indicative more of the characteristics we need than of any in-built selection prejudice. The combination of excellent salary, bonus and finance sector benefits will attract candidates of the highest calibre. Please send full career details, quoting reference WE 1044, to Terry Ward, Ward Executive Limited, Academy House, 26-28 Sackville Street, London W1X 2QL Tel: 071-439 4581.

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Elizabeth Arthur
071 873 3694Stephanie Spratt
071 873 4027**FINANCIAL ACCOUNTING MANAGER****£ Attractive Package****Swindon**

National Semiconductor is a high technology world leader in the micro-electronic components market with a turnover of around £1 billion.

The European Sales and Marketing Headquarters, based in Swindon, has created the opportunity for a hands-on Financial Accounting Manager to join the Finance team.

Reporting to the Financial Controller you will be responsible for exercising control over the assets and liabilities of the company including the provision of statutory accounts, forecasting and corporate reporting, through the management and motivation of a finance group of seven staff.

Ideally in your late 20s or early 30s, you will be a graduate qualified accountant with around two years post qualifying experience in a multinational environment. With strong management and communication skills you should be determined yet flexible in your approach and capable of meeting deadlines in a challenging environment. Good PC and system skills are also essential. As part of the company succession planning programme, it is envisaged that you should be capable of fulfilling the Controller's position in the future.

Candidates should apply, with full career and salary details, to R M Bruce, Mercuri Urval Ltd, 1-4 Portland Square, Bristol, BS2 8RX, quoting reference 179/91.

Mercuri Urval**Group Taxation Manager****Public Company - European Market Leader****London SW1****c.£50,000 + Car + Benefits**

Our client is the holding company for one of Europe's largest groups of media specialists. Its operating companies are dedicated to providing their clients with the most cost effective access to carefully targeted audiences to ensure their advertising and sponsorship messages have maximum impact. This Group is truly international with more than 4,000 clients served through 50 operating companies in 17 countries. Since it was first listed on the stock market, the Group has an unbroken record of growth in turnover, profit, earnings per share and dividends culminating in pre-tax profits of £67.8 million in 1990. This has been achieved through strong organic growth and selective acquisition from a diverse range of media companies with unrealised potential.

An exceptional opportunity has arisen to join their small, widely experienced management team as Group Tax Manager. The role will encompass all aspects of UK and overseas compliance

together with a significant involvement in corporate tax planning in connection with acquisitions, disposals, business reviews, international cashflows and reorganisations.

The successful candidate will be a graduate qualified accountant, ideally at manager level either within the profession or commerce, aged 28 to 35. You will display a high degree of commercial awareness and have demonstrated initiative and excellence in your current position. Strong interpersonal and communication skills are essential. You should be assertive with strong technical skills and a desire to put these to practical use within a dynamic commercial environment.

In the first instance, please contact Chris Nelson on 071-631 2000 (evenings/weekends on 081-785 6545) or write to him at Michael Page Taxation,

Page House,
39-41 Parker Street,
London WC2B 5LH.

Michael Page Taxation

International Recruitment Consultants

FINANCIAL PLANNING AND MANAGEMENT**International Transport, Property and Hotels Group****London****c.£40,000 + car**

Listed in New York, headquartered in London and with operations throughout the world, the Group is a market leader in the transportation sector and is active in a range of other business areas. Turnover last year was over £200 million.

The international nature of the company's activities and its ambitious growth plans have led to the creation of this new position. Working closely with the head of finance and other top executives, you will supervise a small professional team with responsibilities which encompass international tax planning and compliance and statutory accounting. In addition you will take a leading role in a wide range of strategic projects, including investigations and acquisitions.

This is a high profile position with outstanding career prospects and, to meet its demands, your experience and ability should be of the highest quality. Probably in your late 20's to mid 30's and a chartered accountant, you will be something of an all-rounder with broad experience gained from working with, or for, large international companies. You will currently be in a management position in industry or the profession and be able to demonstrate self-sufficiency, adaptability and personal energy, as well as excellent technical awareness.

Please send a comprehensive résumé, salary details and day time telephone number, quoting reference, 3208, to Neil Cameron, Touche Ross Executive Selection, 52/54 High Holborn, London WC1V 6RL. Telephone: 071-353 7361.

**Touche
Ross****MANAGEMENT
CONSULTANTS****MANAGEMENT ACCOUNTANT
for
GROWING P.R. BUSINESS**

An established financial P.R. consultancy seeks an assistant to both the Financial Controller and the Chairman. An experienced accountant, the main role will be to manage and develop both a Lotus 123 management accounting system and an IBM System 36 accounts package. Must be computer literate, proficient in use of spreadsheets and preferably have experience of transferring manual systems onto computer.

A shirt-sleeves approach is as important as strong systems development skills. Package as appropriate.

Please write with full C.V. to:
Janet Hammond, 4 College Hill, London EC4R 2RA

ACCOUNTANT

Qualified Chartered Accountant, enterprising character, with minimum 2 years experience of reputable accounting firm, sought as C.F.O. for new stockbroking venture of previously highly successful individuals. Starting salary up to £30,000 with substantial bonus possibilities. Shares may be made available at later date. West end based.

Write Box A1505, Financial Times,
One Southwark Bridge, London SE1 9HL

**FINANCIAL
ANALYST****West London****Leisure Industry****c.£28,000 + Car**

Established during the mid 1980s, this new joint venture recently merged their activities into a single operation. Backed mainly by a major blue chip corporation, the combined investment to date currently exceeds £1bn.

To maintain its competitive edge and maximise profitability, the company seeks to appoint a qualified accountant to join its business planning division.

You will be responsible for developing and improving the business plans on an on-going basis, co-ordinate financial reports with the management reporting function and assist in developing periodic analytical reports for executives and shareholders.

Ideal candidates will have had significant exposure to PC based systems, specifically Lotus 123. You will have had experience of developing in-depth spreadsheet applications using macros.

A high level of professionalism will be expected of the holder of this post as it involves exposure to both top management and external shareholders.

The successful candidate will be newly or recently qualified and be able to exercise initiative in working in this young and fast moving environment.

Interested candidates should contact Michelle Ser on 071-629 4463 (days) or 081-977 2951 (evenings/weekends), or send an appropriate curriculum vitae to the address below, quoting reference MEK251.

HARRISON WILLIS

39-40 Albemarle Street, London W1X 3FD. Tel: 071-629 4463
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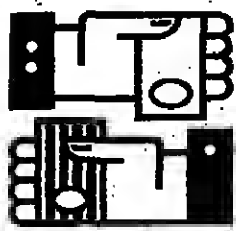
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INTERNATIONAL BANKING

SECTION III

Friday May 24 1991



Banks collapsing in the US, recession in the UK, corporate failures in Australia, the stresses and strains of a system under pressure

— it is hard to recall a time when so much seemed to be going wrong at once. **David Lascelles**, Banking Editor, analyses the upheaval

A bruised and battered look

THE news from the banking front has been so unremittingly bad in recent months that even hardened bankers are having trouble keeping a sense of proportion.

Whether it be banks collapsing in the US, recession in the UK, corporate failures in Australia, or simply the stresses and strains of a system under pressure, it is hard to recall a time when so much seemed to be going wrong at once.

Top banks like Barclays and the Industrial Bank of Japan, the world's largest, lost their triple-A credit ratings after reporting worsening results. In Germany, the big banks had to hold their dividends as east European loan losses ate into profits. In the US, money centre banks like Citicorp and Chase Manhattan have been forced to make severe cuts to get their balance sheets back into shape. Even Japanese banks, only two years ago the most feared predators on the banking block, wear a subdued look.

The reasons are not hard to find. The Gulf war aggravated what were already very difficult conditions for banks, particularly in the English-speaking world. Loan losses in the US are at record levels, notably

in the north-east real estate market, and could be heading for similar heights in the UK. Although the Japanese economy has been reasonably strong, the collapse of the stock market and the fragility of the property market have put heavy strain on banks there.

But people have also been looking for more deep-rooted causes. Many have blamed over-strict rules which prevent banks from evolving with their markets, and force them instead to chase after ever riskier profits. This would explain bankers' over-exposure to the property market, despite the lessons of history about its dangers.

Some have also pointed the finger at the burdensome capital rules which international supervisors are trying to introduce. Although these are supposed to strengthen the banking system, they are also choking the banks' ability to lend.

But central bankers are resisting calls to ease the rules. Last week, Mr Robin Leigh-Pemberton, the governor of the Bank of England, said such action "would be a profound mistake". If banks were being more selective in their lending,

this marked a welcome return to prudence.

Despite all the doom and gloom, however, there are chinks of light. Stock markets around the world seem much more cheerful about the outlook. Bank shares have been on the rebound for much of this year, and many of them have soared to record highs.

To an extent, this reflects the market's view that banks must have hit bottom even if they are not yet obviously on the rebound. One reason is that bankers themselves are plainly making fresh efforts to get their institutions back to health.

"We're going through a very important transition," says Mr John Reed, the chairman of Citicorp, the largest bank in the US. "We're aiming to change the culture of the place."

Mr Reed has embarked on a major programme of cost-cutting and capital raising after a dividend cut and two successive years in which loan loss provisions exceeded \$2.5bn.

Another reason is that the economics of the banking market have begun to show their first improvement in over a decade. The retreat of dozens of banks from the aggressive

lending tactics which they adopted in the heady 1980s has brought about a marked fall in competition. Banking margins are widening as a result, particularly over the last six months.

Analysts at Kleinwort Benson Securities, for example, calculate that an improvement of only 0.25 percentage points in margins would add \$298m (\$515m) to the profits of Barclays Bank this year. This will be a lasting trend, predicts Mr Bruce Patullo, the chief executive of the Bank of Scotland, who moved smartly to make a \$200m rights issue and position his bank to expand its market share.

A further reason is that regulators are attempting to refashion the rule book to make life more tolerable for banks, though their efforts are being hampered by slow-moving legislators and inability to agree among themselves.

Mr Nicholas Brady, the US Treasury Secretary, presented his proposals to reform US banking law in February with the words: "It's a bleak picture that demands action — prompt action — to correct it." If he succeeds, he will bring about the first major change in the US regulatory environment in

over half a century. He wants to give banks greater freedom to engage in new activities like insurance and investment, and break down barriers between individual states.

However, early indications are not encouraging. Congress may have neither the time nor the stamina for a mammoth banking bill, and may focus its efforts instead on the more simple but urgent task of rebuilding the decimated deposit insurance system. This could also slow down similar reforms in Japan.

The implications of regulatory inaction in Washington could be severe for US banks because the European Community, in the meantime, is pressing ahead with its plans for a single market, based on a liberal concept of what banks should be allowed to do.

Sir Leon Brittan, the commissioner responsible for financial services in Brussels, says he is confident that the main banking measures will all be in place by the end-1992 deadline.

A major question arising out of the upheavals of the recent past is the extent to which it will leave a lasting impact on the banking industry. The answer will not become clear

until the dust settles. But already new shapes are discernible.

The most significant may be a reversal of the trends of the 1980s which saw banks expanding internationally and branching out into new markets, particularly in the investment banking area.

The retrenchment that has been forced on big banks by harder times has led to a marked retreat from location-like Europe by the Americans and the Japanese. But foreign banks with big operations in the US have also suffered, notably the UK's NatWest which lost \$352m there last year.

"Banks are heading home," says Mr Piet-Jochen Eitel, a member of the board of Dresdner Bank. "It is very difficult to expand successfully abroad."

But the movement is not only a geographical retreat. Many large banks are also going back to basics by refocusing on their traditional domestic operations, and on markets where their long standing gives them natural advantages.

In a recent study of the prospects for US banking, Mr Lowell Bryan, the head of McKin-

sey's North American banking practice, argued that many banks should return to performing only core banking activities, where they would be strictly regulated. His work suggested they would be more profitable than today's commercial banks.

Banking regulators, too, are focusing on distinctly unglamorous areas: the clearing systems that underpin the financial markets and go unnoticed until they fail, when they cause havoc. Several initiatives are now underway to strengthen systems and encourage new developments like netting out payments between banks to reduce the sums of money that pass between them and, hopefully, the scope for error.

Banking wears a bruised and battered look as it advances into the new decade. Stock phrases of the 1980s such as innovation and globalisation have become dirty words. Nowadays bankers talk of "getting back to basics" and "building on strengths" — a sure sign that the earlier boldness had gone.

Confidence will doubtless return as the economic picture improves, but that can't still be some way off.



IN THIS SURVEY

- **THE WORLD ECONOMY:** a difficult decade lies ahead
- **INTERNATIONAL INSTITUTIONS:** focus shifts to the private sector . . . Page 2
- **CAPITAL FLOWS:** is the 'credit crunch' hard fact or financial fiction?
- **REGULATION:** the reformers are struggling to keep pace with changes in the market . . . Page 3
- **INVESTMENT BANKING:** competition gets tougher
- **RETAIL BANKING:** once a money-spinner, now a cut-throat business . . . Page 4
- **1992:** the single market remains a strong force shaping European banking strategy
- **THE LENDING MARKET:** the banks have regained the upper hand . . . Page 6



Midland's McMahon: questions about the future

■ **INSURANCE:** banks will sell more and more policies to customers during the 1990s . . . Page 8

PROFILES:
 The UK . . . Page 4
 The US . . . Page 5
 Japan . . . Page 5
 Germany . . . Page 7
 Australia . . . Page 7
 France . . . Page 7
 Canada . . . Page 8
 Related Surveys . . . Page 8

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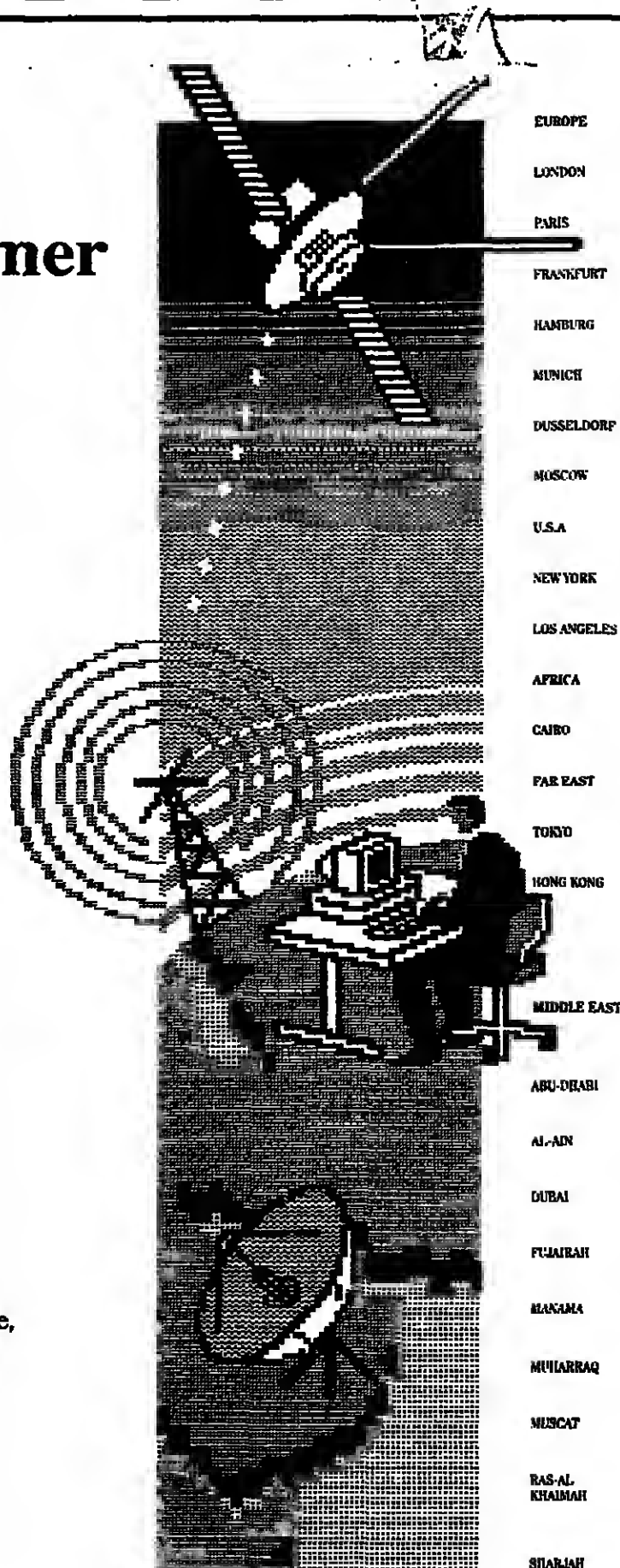
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INTERNATIONAL BANKING 2

Peter Norman assesses the condition of the global economy

A difficult decade ahead

THE 1990s are shaping up to be a difficult decade for the world economy and for international banks.

The US, Britain, Canada and Australia are in recession. Growth in Japan and continental Europe is slowing.

After the euphoria that surrounded the end of the Cold War, the former Communist countries of eastern Europe are experiencing a difficult transition to the free market economy. The Soviet Union is in economic crisis with serious commentators such as Mr Zbigniew Brzezinski, the former US national security adviser, drawing parallels between its present plight and that of the US in the great depression of the 1930s.

The state of the developing world is a cause for continuing concern. There are success stories, such as the fast growing Asian economies of Hong Kong, South Korea, Singapore and Thailand, where economic conditions are increasingly difficult to distinguish from those in some industrialised nations. Some Latin American countries, notably Mexico, are pulling free of the debt crisis that has hamstrung economic development for nearly a decade.

But we need only look at our television screens to see that many countries in Africa are incapable even of feeding their own people. Elsewhere, nations rich in natural resources, of which Iraq is only the most egregious example, lack the sound, democratically responsible governance that is increasingly recognised as a key pre-requisite for economic growth and development.

However, it is perhaps too easy to stress the gloomy aspects of the global economy. The liberation of Kuwait lifted an important cloud from the economic horizon. Crude oil prices, after surging upwards in the wake of Iraq's invasion, have fallen back to pre-invasion levels of around \$20 a barrel. Inflation, which had again reared its ugly head at the end of the 1980s, now appears past its peak, thanks to the implementation of tough monetary policies by central banks in the leading industrial countries. World stock markets have risen impressively since the

THE WORLD ECONOMIC OUTLOOK (annual changes in per cent)				
	1989	1990	1991	1992
World output	3.3	2.1	1.2	2.8
Industrial countries	3.3	2.5	1.3	2.8
US	2.5	1.0	0.2	2.7
Japan	4.7	5.5	3.3	3.1
Germany (West)	3.8	4.5	2.8	1.9
Developing countries	3.1	0.8	0.8	3.4
Africa	3.3	1.9	2.0	4.8
Asia	5.5	6.3	5.0	6.2
Europe*	1.8	-2.9	-3.5	-1.7
Middle East	3.2	-1.5	-3.3	5.5
Western Hemisphere	1.5	-1.0	1.0	3.3
World Trade Volume	7.1	3.8	2.4	5.5
Commodity prices				
Oil	21.5	28.3	-22.1	4.0
Non-fuel	-0.3	-7.8	-2.7	3.2
Consumer prices				
Industrial countries	4.4	4.5	4.8	3.9
Developing countries	79.5	80.5	40.9	18.0

*Bulgaria, Cyprus, Czechoslovakia, Hungary, Malta, Poland, Romania, Turkey, USSR and Yugoslavia

Source: IMF World Economic Outlook, April 1991

beginning of this year, helping to boost confidence.

Despite slowing, and in some cases negative, growth in the big industrialised nations, the world should escape a global recession. True, the International Monetary Fund expects world economic growth to slow to around 1.25 per cent this year from 2 per cent in 1990 and 3.25 per cent in 1989. But, in its most recent Economic Outlook, the IMF says growth could rebound to 3 per cent next year, helped by a recovery in the growth of world trade to perhaps 5.5 per cent from 2.5 per cent expected for this year.

There are risks to this forecast - particularly on the trade front, where the stalled Uruguay Round of negotiations to liberalise world trade are a potent reminder of the dangers of protectionism. But the world has also been lucky because of the sharply different cyclical positions which currently characterise the economies of the big industrialised countries.

It is not unreasonable to hope that the US, which was one of the first countries to enter recession, may soon be on the path of recovery. The Federal Reserve has pursued a policy of aggressively lowering interest rates in recent months, bringing the rate for federal funds - the important interest rate at which banks lend among themselves - down to around 5.75 per cent. Although policy in Britain is

now subject to the constraints of the exchange rate mechanism of the European Monetary System, the government has presided over a substantial interest rate cut in recent months. Economic surveys suggest that the bottom of the UK recession may be in sight, although rising unemployment will be unavoidable for many months to come.

In the meantime, growth in Japan, although slowing, is expected to remain strong by any standards other than those set by Japan's spectacular economic performance in the past. In Germany, conditions following union are more complex. Western Germany chalked up an impressive 4.5 per cent growth rate last year as its factories boosted production to meet demand from the inhabitants of the former East Germany. Although the stimulus from union remains strong, the economic problems of the new Länder are proving far more intractable than imagined. The German economy is looking increasingly lopsided. Because of the present fixity of exchange rates in the ERM, the tight monetary policy that the Bundesbank is pursuing to control inflationary pressures in the western part of the country is threatening to choke growth in France, Italy, Spain and other European Community countries.

The global economic picture is therefore mixed. And the

problems of the banks and other financial intermediaries in many countries will probably ensure that recovery will be slower than it might have otherwise been.

The global economic upswing of the 1980s owed much to a wave of deregulation in the financial centres of the English-speaking world and, in turn, gave that process of deregulation added impetus. With the benefit of hindsight, excesses developed which now impair economic growth.

Deregulation encouraged households and businesses in the US, Britain and Australia to take on ever increasing volumes of debt at variable interest rates. The tough monetary action taken to tame inflation not only exposed weaknesses among the borrowers. Financial fragility has extended to substantial parts of the banking industry, particularly in the US.

This financial fragility coincides with a growing need for capital in the world. Economic restructuring in eastern Europe, the cost of German unification, post-war reconstruction in the Middle East and the continuing demand for funds to develop the Third World sit uneasily alongside widespread insolvencies in the US thrift industry and the financial problems of some commercial banks in the US and elsewhere.

Until international banking gains more strength and confidence, free flowing funds will not be available from the banking system to finance all the needs of the global economy in the 1990s. Only top quality borrowers will attract finance and the strong, whether they be countries or companies, will have an even bigger advantage over the weak.

The words "credit crunch" have doubtless been overused to describe present conditions. But there is no mistaking the determination of nearly all governments to encourage domestic saving to make their economies less dependent on sometimes capricious capital flows. Although slowdowns and recessions invariably have been followed by growth, financial constraints alone argue against there being a surge of global economic activity in the years ahead.

"BETWEEN 1975 and 1980, the World Bank group achieved net transfers of \$9 (in 1991 prices) per person in the developing world. Over the next five years, it is expected that net transfers will represent just over \$2 per person in the developing world. For a large number of countries, the net flow of money will actually be into the Bank" - Larry Summers, Chief Economist, the World Bank, April 1991.

"The IMF estimates that the overall financing requirements of the five countries (the former communist bloc countries of central and eastern Europe) might come to \$230n in 1991. Of this total, the Fund expects to disburse up to \$50n in various programmes and facilities during the year. (However) even with the agreed increase in quota, the Fund was simply not in a position to go on providing resources at the rate envisaged for 1991" - Report to ministers of the Group of 10 industrialised countries, April 1991.

DEVELOPING countries are more dependent than ever on the resources of the multilateral financial institutions. Yet the institutions are severely constrained in their ability to meet this enlarged task.

The reason for this dependence is the drying up of alternative sources of finance for most developing countries. The legacy of the 1980s debt crisis, overlaid by the severe capital constraints on international banks, means that commercial credit is available only to a minority of countries, or for limited purposes.

Prospects for government-to-government credits have also weakened after the losses - implicit or explicit - taken on the loans governments made in the 1970s and 1980s. Japan, a provider of significant sums in bilateral assistance over the last 10 years, has warned that where it is forced to write down debts - as in the recent case of Poland - new credit will not be available.

Despite the recent capital increases of the International Monetary Fund, World Bank and Inter-American Development Bank (IADB), the ability of the international financial institutions (IFIs) to fill the gap is limited.

There is no desire among the IMF's masters to change the essentially short-term "revolving" nature of IMF credit packages. The World Bank is so heavily lent to some countries - such as Brazil and China - that they are almost inevitably going to pay more to the Bank in coming years than it dis-



Jacques Attali chairs the first board meeting of the EBRD

The international institutions

Focus on the private sector

burses to them. In Latin America, the IADB will be the only institution making net transfers to many countries. Even if, as the institutions claim, the demands for resources from east Europe have not deprived other developing countries of funds from the IFIs, these demands have reinforced this trend elsewhere.

In the medium term, this drying up of debt-creating financial flows to developing countries may be no bad thing. In the short-term, it means continued outflows of capital from developing countries, with all that implies for social welfare.

As a result, it is not surprising to see IFIs such as the World Bank emphasising the help it gives to developing countries in non-financial forms - for example, advice and technical assistance.

There is also a renewed focus on non-debt creating financial flows - in other words equity investment, either through portfolio investment in developing countries or through foreign direct investment. It is against this background that many countries, encouraged by the IFIs, have been reforming investment regimes and making their financial climates more hospitable to investors, both domestic and foreign.

This has been accompanied by pressure from leading

shareholders, particularly from the US, for a more private sector-oriented focus by the IFIs. The US ultimately envisages the World Bank - where a tough-minded commercial banker, Mr Lewis Preston, is soon to take over - lending directly to private companies in the third world. A similar trend elsewhere.

Sixty per cent of the EBRD's lending will be devoted to the commercial sector

debate is now under way at the IADB, where borrowing countries such as Chile say rules which prevent lending to the private sector act as a disincentive to privatisation.

US pressure has also resulted in a strong private sector focus in the newest IFI: the London-based European Bank for Reconstruction and Development, created to help the transformation to market economies and democracy in eastern Europe. Sixty per cent of its lending will be devoted to the commercial sector and 40 per cent to infrastructure.

This focus on the private sector is controversial, and many believe it to be too narrow. After years of neglect, infrastructure in many developing countries is deteriorating rapidly. Without it, the private sector would not be able to

function efficiently. Moreover, critics believe that concentration on this issue shifts the focus from its proper place: the raising of living standards - particularly those of the poor - in developing countries.

The EBRD is the first such institution to contain specific reference to political conditions in granting assistance. Political conditionality is excluded by the articles of association of the World Bank, which say loans can only refer to economic conditions.

It is argued that the reason the EBRD should be different is the consensus that now exists within Europe as to the way forward politically. That consensus is not replicated in an international setting.

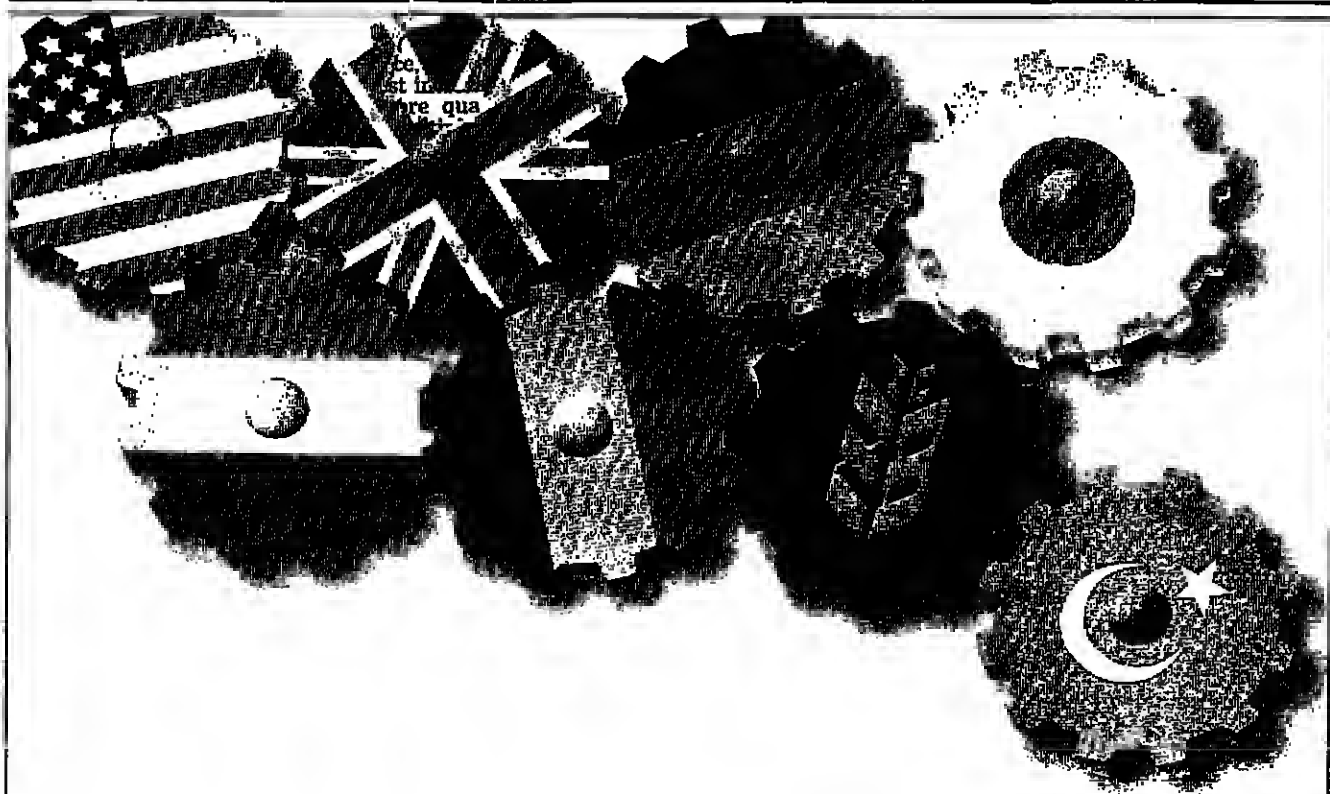
Nonetheless, questions which would previously have been regarded as political and therefore off-limits for the World Bank are increasingly being considered before loans are being granted - one demonstration of how a development bank's business has become more complicated. Shareholders to effect gave a go-ahead last month for the bank to take account of "excessive military spending" in deciding whether a country should receive assistance. The justification is that military spending has a fiscal dimension, and can have an impact on development.

The controversial delaying, under US insistence, of an IADB project loan to Brazil in March (because of that country's arrears to commercial bank creditors) is one of several factors which suggest to some that there may be a less individual approach among IFIs to borrowing countries.

This seems to make them more dependent than ever on the IMF imprimatur. Upon this hang loans from the World Bank and structural adjustment loans from other IFIs, as well as commercial and official debt reschedulings.

There is no doubt that as time passes the IFIs are moving into areas where they are potentially more intrusive into policy-making in borrowing countries. However, there exists at least for the moment a broad consensus in many governments about the importance of markets and the private sector; of reforming fiscal deficits and of eliminating distortions to trade and prices. This consensus is likely to lessen any controversy in the near-term. The problems going forward may well be to persuade the industrialised world of the value of these precepts.

Stephen Fidler



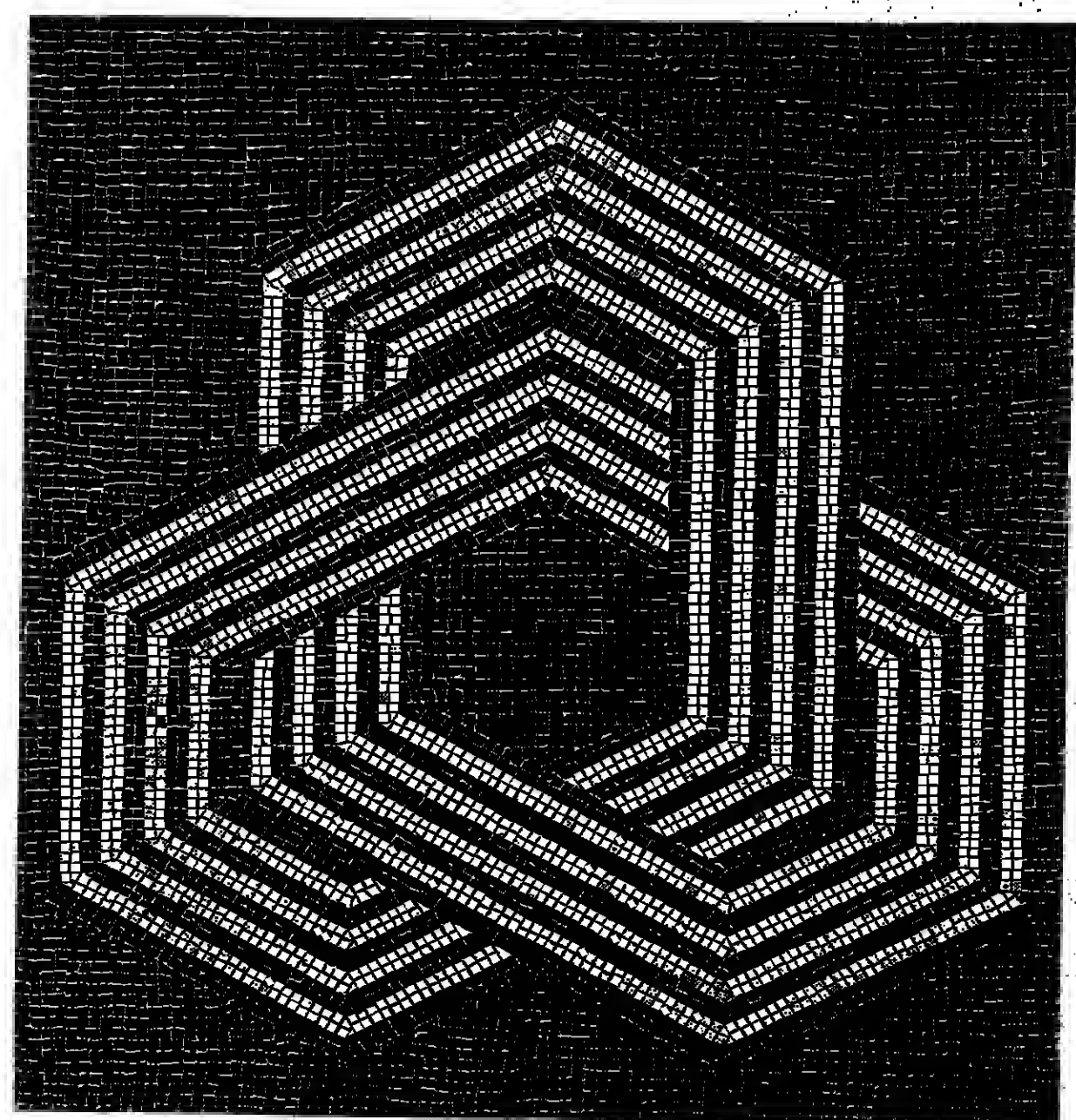
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INTERNATIONAL BANKING 3

Simon London analyses the global capital markets

The 'credit crunch': hard fact or financial fiction?

FEARS of a global credit crunch were voiced by Mr Nicholas Brady, the US treasury secretary, at last month's Washington meeting of finance ministers of the Group of Seven industrial nations.

The remedy prescribed by the US administration is lower interest rates and easier monetary conditions. However, there is a school of thought that suggests the benefits of easier money will not be passed on to the real economy this time around.

Instead, the banks will use easier conditions to shore up their depleted balance sheets by restoring lending margins, retaining income and building capital resources.

The fact is that many banks are fighting to meet minimum requirements laid down in the Basle accord on international bank capital adequacy. The credit crunch, it is argued, is only the visible symptom of an underlying capital crunch.

Under the Basle guidelines, banks must hold capital equivalent to at least 8 per cent of risk-weighted assets by the end of 1992. Of these capital resources, at least half must be Tier I - equity or non-cumulative, irredeemable preference shares. The rest can be Tier II capital in the form of loan loss reserves, subordinated debt and revaluation reserves.

A common problem for international banks is that having expanded assets rapidly during the 1980s, they have found it difficult to raise capital.

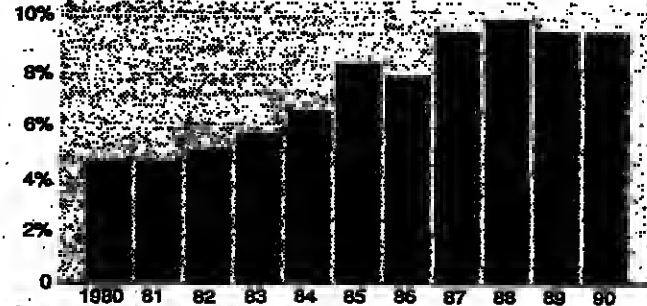
The capital markets have not been willing buyers of equity, preference shares, or subordinated debt. Profits have been decimated by loan losses in areas such as real estate and developing country debt. Hence capital resources have not always kept pace with assets.

Different banks in different jurisdictions face different problems. Some lack core capital in the form of equity, some need to raise more Tier II subordinated debt.

Moreover, while banks are working hard to meet existing regulations, the regulators are formulating new targets which will cover such areas

Ratio of total capital to total assets

10 largest US bank holding companies



Source: Federal Reserve Bank of New York

as foreign exchange risk.

Banks are also worried that sudden accounting rule changes will leave them short of the Basle standard. For example, the Basle committee of central bank regulators has proposed a tightening of the accounting treatment for bad debts.

If the Basle committee gets its way, banks will no longer be able to treat general loan loss reserves as Tier II capital.

Having expanded assets rapidly, banks have found it difficult to raise capital

Any reserves earmarked for specific credits or for identified asset deterioration would be excluded from capital resources - beyond the general limit that reserves of no more than 1.25 per cent of risk-weighted assets may be counted as Tier II capital.

This would prevent banks from including reserves against real estate loan losses, or loans to developing countries, as Tier II capital.

The March edition of the *World Bank Quarterly Review* noted that such a change would have an uneven impact on the world's banks. In the past, for example, US banks have not publicly differentiated between reserves against specific credits and general reserves.

Equally, Salomon Brothers estimates that exclusion of

developing country debt provisions would lower the Tier II capital ratios of the Japanese city banks by 0.24 per cent on average.

Against this uncertain background, however, there are several signs that the capital crunch is easing.

In Japan, the strength of equity prices this year has buoyed the capital adequacy ratios of Japanese banks, which are allowed to count 45 per cent of unrealised gains from holdings of securities as non-core capital. Every 1000-point move in the Nikkei stock market index changes the city banks' capital ratios by around 0.2 per cent.

The average city bank's capital adequacy ratio, therefore, appears to stand at around 8.5 per cent today, against 7.5 per cent in September last year, when the Nikkei stood at around 21,000 - 5,000 below its current level.

In France, the government's decision earlier this year to allow nationalised companies to tap the domestic equity markets may help the country's banks boost depleted Tier I resources.

A more general fillip for capital-hungry banks has been a renewed willingness of investors to buy common equity, preference shares and subordinated paper issued by financial institutions. This trend has been most noticeable in the US, perhaps the biggest market for preference capital and subordinated debt securities.

In the first three months of

this year, US banks raised \$1.8bn in subordinated paper. Last month, National Westminster Bank became the first overseas financial institution to tap the market this year, with a \$750m offering of 10-year subordinated paper. Barclays Bank proved that US buyers can once again be found for large public issues of preference capital by making a \$200m offering in March - the first by an overseas bank since June 1980.

In addition, there are signs that international investors are more receptive to banks. NatWest and ANZ raised \$100m and \$50m respectively of Tier II capital in the international bond market in April.

Bank of Scotland has asked shareholders to provide a further \$194m of core capital, the first rights issue by a UK bank in more than two years.

However, in the US in particular, there are arguments that the banking system is not actually short of capital. Rather, it is inefficient at distributing capital within the system.

For example, in the annual report of the Federal Reserve Bank, Mr Gerald Corrigan, the chairman, commented:

"It is by no means clear that the US banking system is short of capital. In fact, the opposite may be true, even though some individual banks need more capital. In part, the suggestion that there is too much rather than too little capital grows out of the widespread impression that the United States is 'overbanked'."

Taking figures for the third quarter of 1990, the US banking system required roughly \$160bn of core capital to maintain a 6 per cent Tier I capital to assets ratio - compared with a minimum Basle ratio of 4 per cent. In fact, the amount of capital in the system was \$200bn.

One implication of these figures is that the US banking system will have to undergo a major period of consolidation to match the capital to the assets.

Credit crunch or not, many of the world's banks could be facing a period of significant change.

David Lascelles considers the impact of regulation

Reforms fail to keep pace with changes in the markets



Hub Muller, chairman of the Basle committee: 'you don't relax automobile standards in stormy weather'

BANKING has always provided a field day for rule-makers, but seldom so much as now.

Officials in Brussels, Washington, Tokyo and Basle are hard at work on blueprints to make banking safer, more efficient or fairer. But, with some exceptions, the pace of progress is slow, and regulation has failed to keep up with many changes in the markets.

One of the officials' biggest tasks has been to push ahead with the Basle agreement on capital, now due for full implementation by the end of next year. The agreement sets minimum capital standards to which all banks must adhere. But there have been worries in countries facing recession, such as the UK and the US, that the standards are squeezing the banks' ability to lend, and worsening the danger of a credit crunch. Calls have been made to relax the rules.

Mr Hub Muller, the Dutch central banker who chairs the Basle Committee, has resisted them on the grounds that "you don't relax automobile standards in stormy weather."

Nonetheless, the Basle rules have forced banks which have expanded beyond their capital capacity to retrench, particularly the Japanese. This in turn, has reduced the intensity of competition in the international market and enabled bankers to widen profit margins.

The knottiest issue which draws banking officials together is how to accommodate the steady convergence of the banking and investment markets which has resulted from the banks' growing interest in securities dealing. In the US and Japan, where the two markets are separated by law, legislators are considering ways of lifting the legal barriers. In Europe, where no such separation exists, the challenge is to manage their co-existence.

One of the central planks of the proposals put forward by Mr Nicholas Brady, the US treasury secretary, to reform US banking law earlier this year was for banks to engage in securities underwriting. His proposal fell short of abolishing the Glass-Steagall Act

which makes the separation. Instead, it would require the banking and securities operations to be separately incorporated under a common financial services holding company. This would create a "fire wall" round the bank and protect it from the losses of other subsidiaries.

The proposal disappointed the big US money centre banks which wanted to be able to combine securities and banking under one roof, universal bank style. But it also angered the Wall Street securities firms who saw themselves having to compete with banks who had the advantage of cheap funds from their customer deposits.

However, it is still far from certain that Congress will legislate such far-reaching reform. It is a low priority compared to the more urgent task of recapitalising the US deposit insurance fund, which has been drained by losses. The crisis in the US banking industry has also greatly reduced the number of banks who are interested in, or able to take advantage of deregulation.

Nor is much progress evident in Japan, where a similar deregulation exercise is underway. Proposals from the banking and securities supervisors are being hammered into a reform package by the Ministry of Finance. This will also likely adopt the US-style holding company concept, but Japanese officials are warning that actual reform may still a long way off.

In Europe, where banks are free to deal in securities, the regulators' task has been to ensure that banks and securities houses compete on equal terms in the markets where they overlap.

The Basle Committee has been drawing up rules to cope with the risks that banks run when they deal in equities, foreign exchange and interest rate-sensitive instruments. But their work has been hampered by the failure of their opposite number in the securities business, the International Organisation of Securities Commissioners (IOSCO) to agree common ground. A proposed Basle-IOSCO Meeting in April

had to be postponed for six months.

Some urgency is now developing on this issue, not just because banks are taking on market risk anyway, but because work has to keep in step with the Brussels Commission which is drawing up similar rules for the 1992 single market.

However Brussels has also found it hard to draw up capital adequacy rules on investment activities which do not discriminate either against banks or securities houses. There has even been speculation that the whole exercise might be dropped if agreement cannot be reached. But Brussels officials are still hoping for a compromise.

Supervisors are also worried about how to deal with the growing number of financial conglomerates which combine banking and other types of activity. Last year's collapse of British and Commonwealth, the UK banking, broking and leasing group, drove the need home for a clearly thought out approach.

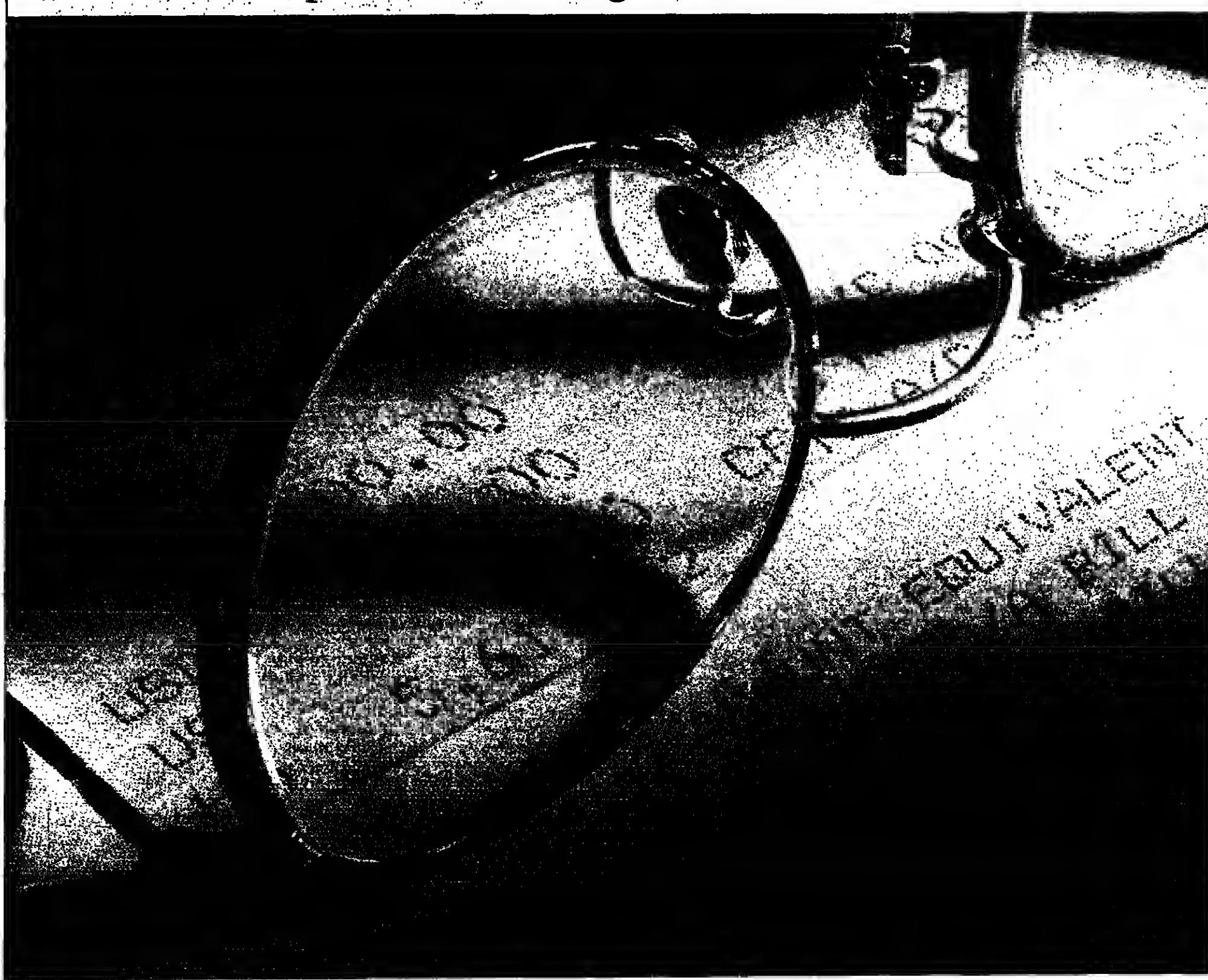
The collapse occurred because of losses in the computer leasing arm. But this quickly precipitated the failure of the group's banking arm, even though it was financially healthy. A subsequent meeting of international supervisors in Frankfurt decided to put the issue high on its agenda.

Although the crisis in US banking has emphasised the need for close supervision of banks, it comes against a background of complex changes in the financial services industry which may require them to have greater freedom.

But regulators have so much on their plates that some fresh initiative may be needed to get the work done.

Mr Richard O'Brien, chief economist at American Express Bank, suggests that central banks could play a bigger role in co-ordinating financial reform programmes, and helping to reconcile differing objectives. He even suggests that the financial services industry needs what he calls "an overarching, global framework."

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INTERNATIONAL BANKING 4

INVESTMENT BANKING

Tough competition

INVESTMENT bankers are heartened by the performance of their markets this year, in stark contrast to conditions last summer. Stocks and bonds have performed well since the end of the Gulf war and, at least in certain sectors, fee-based corporate finance is on the increase.

But competition for the business is stronger than ever and commercial banks are finding it tougher to compete with the securities houses and the merchant banks. A few have a chance of staying in the race and remaining profitable, but more may soon take the option of getting out altogether.

Earlier this month, Bankers Trust of New York announced substantial cuts in its corporate finance department due to sluggish activity in corporate lending and merger business.

The Eurobond market demonstrates how investment banking power is being concentrated in fewer hands. Last year the top ten bookrunners on all Eurobond issues accounted for nearly half the total, according to Euromoney. Only one commercial bank, J.P. Morgan, was among the ten, occupying sixth place.

Some of the US commercial banks, notably Chemical and Chase Manhattan, have cut their losses and virtually abandoned the Eurobond market. Others that were once strong in the new issue market, aiming to support their secondary trading business, have been weakened by competition. Bankers Trust, ranked 11th in 1989, slipped to 18th last year.

In their domestic securities markets, commercial banks are enjoying mixed fortunes. While the Japanese banks are still barred from the most lucrative sectors of the securities business, their US counterparts are slowly forcing the door open. The Glass-Steagall Act, which has kept US banks out of securities for nearly 60 years, is slowly crumbling.

In 1989, four banks - Morgan, Chase, Bankers Trust and Citicorp - began underwriting corporate debt. Last year Morgan scored a first when it was given permission to underwrite domestic equity issues. In January it co-managed a \$100m convertible bond for Centocor, a US biotechnology company.

It remains to be seen

whether Morgan makes money out of its new activity. But, unlike Citicorp, an arch-rival that has set its sights on being a global consumer bank, Morgan decided long ago to take the investment banking route. Less than one-third of its assets are now tied up in traditional lending.

The UK commercial banks, which became involved in securities nearly five years ago at the time of "Big Bang", have had an unhappy experience. Fierce competition from the Wall Street houses in London combined with shrinking trading volumes have dented revenue while costs continue to escalate, despite staff cutbacks.

EW, the investment banking arm of Barclays, has had an uphill struggle to establish itself. Profits jumped to \$54m (\$83m) in 1989 but last year slumped to only \$5m, a tiny return on its \$400m of capital.

County NatWest, part of rival National Westminster Bank, never overcame its internal clash of cultures between the bankers, brokers and market-makers who came together at its formation. It has over the years made a profit and last year posted a loss of nearly \$50m.

Both banks have had problems in establishing a successful corporate finance unit to support their securities trading activity and, most important, to bring in fee-based income. All investment bankers recognise that a key element of corporate finance work is expertise in mergers and acquisitions.

True, M&A business in the US and UK has been on the decline. The value of deals completed in the US last year was down by nearly 40 per cent, while cross-border activity also declined. According to figures from KPMG Peat Marwick McLintock, the value of all cross-border deals fell 13 per cent to \$114bn in 1990.

But the imminent single European market has raised hopes of an upturn in M&A activity, if only gradually. The restructuring of industry, which is essential to make the single market work, is certain to need the help of M&A specialists, argue the optimists.

A few commercial banks may benefit from such an upturn. Although powerful Wall Street houses such as

Morgan Stanley and Goldman Sachs dominate the international M&A market, J.P. Morgan is one bank that is high in the rankings. Last year it took third place in a table of advisers on cross border deals compiled by *International Finance Review*.

No other bank featured in the top ten although there are isolated examples of US banks advising on cross-border deals. In the \$533m acquisition by Guinness of Spain's largest brewer, Cruz del Campo, the Spanish company was advised by Chase Manhattan.

The extent to which the commercial banks can penetrate the European M&A market depends on their international ties. This applies to the Continental banks as well as their English-speaking counterparts. "Indigenous banks in Europe have strong client relationships within their own countries," says Mr Guy Dawson, head of corporate finance at UK merchant bank, Morgan Grenfell. "But many of them do not have a genuine international network."

Morgan is part of Deutsche Bank, which is using the UK merchant bank to beef up its corporate finance activity worldwide. Credit Lyonnais is stepping up its international M&A effort: it recently hired Mr Jean-Luc Biamonti from the New York firm of Wasserstein Perella as part of its campaign.

Even if corporate clients are not merging or acquiring, they may well be divesting operations that are no longer financially viable. This is especially true of companies which borrowed heavily during a period of high interest rates. Here, commercial banks should be able to help such clients, particularly if they have an existing tie, perhaps through a lending facility. It is no coincidence that banks are now talking of a swing away from one-off deals back to relationship banking.

This may hold the key to the success (or otherwise) of their investment banking efforts. Capital is crucial, as is a broad international network. But the ability to build lasting client relationships is the most important ingredient.

Nigel Adam

RETAIL BANKING, once an effortless money-spinner for the banks, is becoming a cut-throat business as deregulation and increased competition spread through the international markets. In some countries, markets are still being opened up to competition. In others, competition arrived years ago and is now starting to claim casualties.

In the US credit card industry for example, probably the most advanced in the world, competition is ferocious. Interest rate competition has broken out in earnest with First Wachovia, an Atlanta-based bank, offering the lowest interest rate of any leading issuer - a floating rate of prime rate plus 2.9 percentage points, currently around 11.9 per cent, while on the other side of the business even American Express is bowing to pressure from food and drink retailers to lower commissions.

Banks now have to fight growing competition from retailers such as AT&T's Universal AT&T broke into the MasterCard and Visa markets through its subsidiary Universal Bank, offering a card which undercut those of the banks. With 4.5m holders, it now ranks sixth in the industry.

In some credit card products, the emphasis is still on deregulation and breaking down long-established cartels in the industry. "I think in Japan, people are

entrants into payments systems have to pay their way. The frantic state of the US card market is an extreme example, but similar pressures are beginning to be felt elsewhere. In the UK, banks' profits were slashed not only by provisions on corporate and Third World lending, but also by provisions on retail lending.

Lloyds Bank, for instance, put aside \$487m in 1990 (up from \$162m in 1989) on its retail business. Its credit card operations slipped into loss, even though Lloyds led the way in introducing annual charges for card customers.

At least UK banks do not yet face challenges from retailers such as AT&T's Universal AT&T broke into the MasterCard and Visa markets through its subsidiary Universal Bank, offering a card which undercut those of the banks. With 4.5m holders, it now ranks sixth in the industry.

In some credit card products, the emphasis is still on deregulation and breaking down long-established cartels in the industry. "I think in Japan, people are

RETAIL BANKING

Cut-throat business

right when they say that deregulation cannot come in a rush. It has to be achieved on a step by step basis," says Mr Mr Carl Pascarella, president of Visa International's Asia Pacific Region. However, Mr Pascarella is hopeful that Visa International is poised for a breakthrough in the Japanese market, where for several years it has faced strong com-

petition from local bank cards allied to MasterCard and from charge cards, notably JCB. JCB itself is expanding its overseas network of merchant outlets. In the UK, it hopes to grow its network from 10,000 to 50,000 in the next few years, using Midland Bank's merchant services.

Some credit card products familiar in other countries are as yet largely unknown in Japan. Japanese automatic teller machines are among the most advanced - and the

cheapest to operate - in the world, but there is little use of electronic terminals and EFTPOS (electronic funds transfer at point of sale), while debit cards have been very slow to emerge.

On the other side of the world, Visa International would like to crack the German market by persuading one of the three large German banks to join it. Last year, however, Deutsche Bank, the largest German bank which has led resistance to Visa, launched a Eurocard with a revolving credit which it is marketing to the general public as well as to its own customers. The move signals a further step towards competition, but boosts the Eurocard/MasterCard alliance.

Meanwhile the European Commission doggedly continues to try and build up a single market in retail banking as in other areas. In October 1990 the commission published a green paper on cross-border payments. Sir Leon Brittan, the commissioner responsible, says that building a common payments system is an essential plank for the Community's plans to establish a single market in all areas of economic activity.

Commercial banks in the twelve EC nations initially reacted with some hostility to Sir Leon's proposals, evidently seeing them as an attack on the lucrative commission income they earn each time a payment in one community currency is translated into another. Two committees of consumers and bankers are

now looking into the problems involved and are due to report by the end of the year.

In the marketplace, European financial services players are reaching out beyond their home countries. Barclays and Bank of Scotland have both entered the German credit card processing market and Barclays has started to issue Visa and debit cards in Germany.

In the mortgage market, Hypobank (Bayerische Hypothek und Wechsel Bank) has announced plans to market its mortgage products in Italy. Two British lenders, Abbey National and Woolwich Building Society, are already there. Hypobank has already set up subsidiaries in several European countries including Britain. By contrast, Halli, the largest UK mortgage lender, has yet to set up operations outside its country of origin.

Woolwich has also entered the French market by buying Midland's French subsidiary, Banque Immobilière de Crédit.

In the UK, however, a number of the foreign banks which entered the market in the late 1980s are now trying to withdraw because of the depressed housing market. Westpac of Australia sold its \$200m mortgage book to Household Mortgage Corporation, a specialist lender, in April.

Around 30 smaller mortgage lenders are now trying to withdraw from the UK market, following the lead of Chase Manhattan, which sold its portfolio to HMC early this year. Those who plan to soldier on in the UK recognise the need for caution. "We intend to stay in the UK mortgage market, but we recognise that for the time being one has to go slowly and keep a low profile," says one London-based French bank.

David Barchard

THE UK

Victims of recession

"BUSINESS conditions for banks have probably been the worst in recent history, and they are unlikely to improve in the immediate future."

This was the stark message from Mr Charles Winter, chief executive of the Royal Bank of Scotland, when he reported a 58 per cent fall in interim profits at the beginning of this month.

His words probably go for everyone else in the UK banking industry. The recession has had a devastating effect on banks. Bad debts have soared, new business has slumped, and with it the industry's earning power. Sir John Quinlan, the chairman of Barclays, the largest clearing bank, even went on record as saying that conditions were the worst he had seen in his 38-year career.

Although the Big Four clearing banks produced better results in 1990 than in 1989, this was only because the previous year's bottom line was depressed by heavy provisioning against Third World debt. At the operating level, all the big UK banks saw sharp declines in 1990. Their bad debt charges totalled a record \$3.7bn (\$6.2bn).

These severe conditions have produced their particular casualties. One of them was the Midland Bank's proposed merger with the Hongkong and Shanghai Bank, which had to be shelved because neither bank was robust enough to proceed. Five banks, the largest of them British & Commonwealth Merchant Bank, were also forced into administration - the first bad spate of bank failures in a decade.

This spring, few bankers see an early end to it all. Lord Alexander, the chairman of NatWest, told shareholders not to expect any improvement in the first half of this year. Because the peak in bad debts tends to lag behind the recovery, the latter part of this year could still bring heavy losses.

But the more enduring impact of the recession may well be to speed up the shake-out in the banking industry. All the big clearing banks have now embarked on major cost-cutting measures which will involve the loss of more than

UK clearing bank results (£m pre-tax)			
	1989	1990	% change
Abbey National	501	532	16%
Barclays	692	780	10%
Lloyds	(718)	591	-
Midland	(261)	11	-
NatWest	404	504	25%
TSB	155	312	101%

Source: Company figures

80,000 jobs and several hundred branches over the next two or three years. In some cases, as with Lloyds, this also involves a retreat from specific markets overseas, usually those on the periphery.

The biggest structural question hanging over the clearing bank sector is the future of Midland now that the Hong Kong marriage is off. Sir Kit McMahon, the chairman, is

leaving early to make way for new management under Mr Brian Pearce, the former finance director of Barclays, to sort out the bank's future. Although there has been much speculation about a possible takeover of Midland, it is hard to identify a credible candidate. Mr Pearce is now engaged upon a strategy review, but he is expected to fight to keep Midland independent.

The merchant banking sector has also been hard hit. Profits have been down at leading names such as Schroders, Kleinwort, Warburg, Barings and Morgan Grenfell, with the causes mainly last year's depressed investment and corporate finance markets. An exception was Hambros, whose more specialised approach enabled it to report an 18 per cent increase.

A notable disaster was Guinness Mahon which lost \$33m on bad debts. This was significant because the group was acquired only two years ago by the Bank of Yokohama in what was seen as a ground-breaking

move by a Japanese bank into UK merchant banking - but now one which others will be in no hurry to follow.

The recession has not helped the image of the banking industry. Accusations of banks "pulling the plug" on hard-pressed customers abound. But the banks have taken steps to meet a worsening market. They have re-opened the intensive care units with which they nursed corporate casualties through the last recession. In a few isolated cases they have even converted loans into equity, though they stress that this is not a trend which they encourage.

Their position has not been helped by the widespread view that banks contributed to the present recession through excessive lending in the 1980s - a charge which they naturally deny. Meanwhile, they are trying to complete a new Code of Conduct to head off the threat of tougher legislative controls on their activities.

But not all bankers take the gloomy view. The Bank of Scotland, long considered one of the best managed UK banks, has just announced a £200m rights issue because it wants to take advantage of what it considers to be excellent prospects in the UK.

Mr Bruce Patullo, the group chief executive, points out that the problems besetting many banks are helping to reduce competition and improve the profitability of the banking market. So any bank which can enlarge its market share should be well-placed. "Our whole delivery system is geared to winning market share," he says. "In the future this business will have higher margins."

David Lascelles

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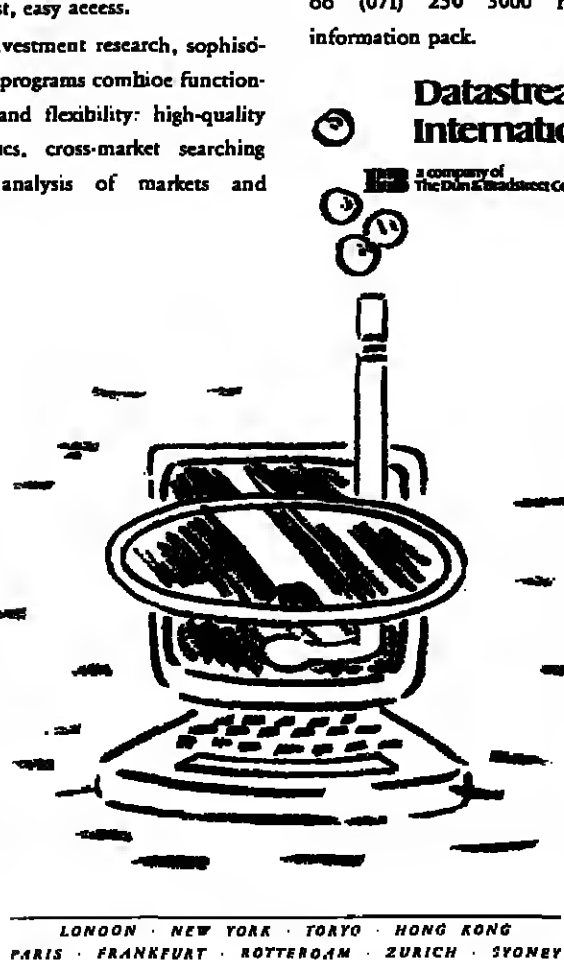
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INTERNATIONAL BANKING 5

THE UNITED STATES

A wary optimism

THE pessimism which seemed to surround the US banking industry just six months ago, as bad debt provisions soared, has changed to a wary optimism that the worst may be past.

However, the current US recession could yet spring some nasty surprises. Even if the industry's earnings are on the mend, it still faces a painful period of cost-cutting and consolidation - and government efforts to push through the biggest reform of the industry since the 1930s.

The crisis atmosphere of last autumn was concentrated mainly in the north-east of the US as a regional recession, which developed into a full-blown national downturn, undermined the commercial property market. Banks' real estate loan loss provisions mounted sharply, the Boston-based Bank of New England teetered on the edge of insolvency (finally succumbing in January) and dark rumours circulated about the possible failure of one of New York's large money centre banks.

Since then, however, there has been a dramatic change in sentiment, underlined by a sharp rise in bank share prices in the first quarter of this year and a willingness of investors to inject sizeable amounts of new capital into the industry.

It is perhaps significant that the failed Bank of New England was eventually bought by Fleet/Norstar

Financial, a fast-growing Rhode Island bank, with the backing of Kohlberg Kravis Roberts, the leveraged buy-out specialist. It was the canny KKR's first foray into banking.

Admittedly, Fleet/Norstar and KKR got a very attractive deal on BNE - the government-run Federal Deposit Insurance Corporation will assume all the bank's risky loans, almost assuring the buyer lucrative returns.

But the industry's fundamentals are also starting to look brighter, even though most banks reported a slide in first quarter earnings, mainly due to further jumps in bad debt write-offs and provisions.

The gradual reduction of short-term interest rates over the past half year by the Federal Reserve has cut banks' funding costs, while lending rates have remained relatively high. The banks' net interest margin - the difference between the average cost of deposits and average yield on loans and other assets - has widened markedly.

In addition, the pace of increase

in bad loans has been slowing. For example, Citicorp's addition to non-performing assets was \$750m in the first quarter, compared to \$800m in the fourth quarter of last year and \$1.1bn in the third quarter.

That said, property problems are far from over. In much of the north-east, commercial real estate values are continuing to fall and many banks expect to make hefty provisions to the end of the year and possibly beyond. The problems extend right down the eastern seaboard, while California also suffers from a large overbuild.

Moreover, the recession has been pushing up credit losses on consumer loans and could further intensify the banks' problem portfolios of so-called HLT loans - borrowings which financed highly leveraged takeovers in the 1980s, many of have turned sour.

On the positive side, the crisis has given a new urgency to banks' efforts to cut their operating expenses. Jobs are being slashed, operations rationalised and peripheral or unprofitable businesses sold off.

Costs could also be cut if a long-forecast consolidation of the industry through mergers finally starts to happen.

However, any move in this direction may have to wait for greater confidence in the industry that it is really on top of its property problems.

Wells Fargo, the San Francisco-based bank, held abortive talks on a possible merger last year with Los Angeles-based Security Pacific. A combination of the two would be the second largest bank in the US, but the talks were apparently suspended last December shortly before Security Pacific announced a large loan loss provision and a retreat from world banking. On the east coast, a popular New York guessing game is which of the large money centre banks will merge.

Meanwhile, the super-regional banks which have emerged via takeovers over the past few years - such as Banc One in Ohio and NCNB in North Carolina - are also looking to expand their empires. Banc One considered a bid for Bank of New England, but was eventually



That sinking feeling: Bank of New England failed in January

put off by the state of the regional economy, while NCNB has been casting an eye over Florida's troubled Southeast Banking.

Cost-cutting would also be helped if the government's plan for an overhaul of banking legislation goes through Congress. For one of its central features would be to scrap the McFadden Act of 1927, which imposed severe controls on interstate banking. The Treasury proposals now being considered by Congress would allow banks to open branches across state lines without restrictions and buy banks in other states much more easily. At present, holding companies have to operate separate banks in separate states, which blocks them from sig-

nificant economies of scale.

Another central feature of the legislative package is a reform of the current system of deposit insurance. The Bank Insurance Fund, which compensates depositors in failed banks, has to be recapitalised because of the wave of insolvencies sweeping through the industry. The administration also wants to curtail sharply the protection afforded to depositors, with insurance limited to \$100,000 for a regular account at one bank. However, it would also retain the "too big to fail doctrine" - which argues that the fall-out from the failure of a large bank is potentially so dangerous that they must be bailed out, whatever the insurance costs.

This issue has sharply divided the industry, with smaller banks arguing that it (and much else in the legislation) will create a bias in favour of large ones.

So politically contentious is the Treasury reform package that few expect much of it to survive its passage through Congress, except for some movement on deposit insurance and possibly some action on interstate banking.

The administration's proposals to scrap the Glass-Steagall Act, which separates commercial banking and the securities industry, seems to have little hope. The same can be said for its plan to inject fresh capital into the industry by allowing industrial companies to own bank holding companies.

If the bill does get mired down in Congress this will not have an immediately damaging effect on the sector, which is looking above all for light at the end of the recession. But most analysts say that over the longer term, without fundamental changes in the anachronistic framework of the industry, it will continue to be financially stretched, inefficient and likely to retreat further from international competition. Some 20 years ago, there were nine US banks in the global top 30. Today there is just one.

Martin Dickson, New York

JAPAN

Modest growth forecast

The March 1993 deadline set by the Bank for International Settlements to bring capital ratios up to 8 per cent, Japanese banks find themselves in a different situation.

The Ministry of Finance has taken a harder line with the banking industry, limiting the ability to raise capital through equity-related financing. Recent weakness in the Japanese stock market has also hurt, lowering the portion of unrealised gains for stock portfolios which can be applied to capital ratios. A slowdown in Japanese economic growth and weakness in the domestic real estate market have prompted international credit rating agencies to downgrade Japanese banks from their top rankings.

One banking analyst with Moody's Japan K.K. says that while Japanese banks have no need to pare back sharply their foreign asset portfolios, a marginal decline would not be surprising. Even following a round of downgrades, major Japanese banks are still at least two ranks higher than their US counterparts.

But financial deregulation has progressed to a critical point in Japan, raising funding cost even further. While the last low-cost funding source for banks, ordinary savings deposits paying about 2 per cent, is still safe from change for the moment, interest rate deregulation is closing in. An advisory council to the finance ministry recently recommended the introduction of money market deposit-type accounts paying higher interest, and the day when all interest rates will be fully liberalised is now in sight.

These changes are making life more difficult for the top "city banks", whose large branch networks and range of businesses will help keep them competitive in most environments. But the specialty institutions - long-term credit banks, trust banks and the Bank of Tokyo - will have a tougher time at home as a result of financial liberalisation, and this may cause them problems abroad as well. As the international capital markets have grown, the business of

lending to large Japanese corporate customers has become more competitive, and less profitable. The trend in the Japanese banking industry has been a shift to smaller customers with fatter profit margins. For the specialty banks with smaller branch networks, such a shift is no easy task.

Mr Hiroonoh Jibiki, a director and general manager of the international planning department at the Long-Term Credit Bank of

Japan, says his bank's strategy at home and abroad is to emphasise low-risk, high-return business, a seemingly difficult job. Overall asset growth for LTCB is expected to be in the range of 5 per cent, compared with more than 10 per cent in recent years. To replace the lost growth in assets, Mr Jibiki says LTCB will try to increase fee-

earnings businesses, off-balance sheet transactions and the trading of foreign exchange and government bonds, all of which can raise profitability without requiring banks to set aside risk-weighted capital.

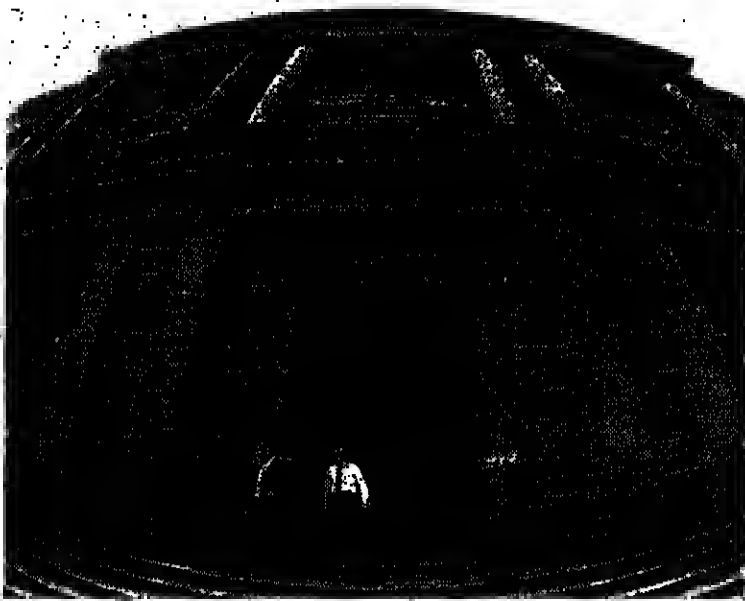
Despite LTCB's aggressive move into US buyout financing in the late 1980s, Mr Jibiki says his bank's share of non-performing assets is much smaller than major American competitors. That will allow LTCB to continue growing at a modest pace, even as other banks pull back, he says.

But Jardine Fleming's Mr Zielinski believes Japanese banks have definitely curtailed their US lending activity. "The profitability of US banks is getting much higher. That is a sign Japanese banks have halted predatory practices in the US."

LTCB's Mr Jibiki will not admit that Japanese banks are pulling back in the US, although he does say the industry is making a big push in south-east Asia.

Still, the number of credit worthy customers in Asia is tiny compared with the US and Europe, which is where analysts say Japanese banks are expected to continue their international focus.

Seth Sulkin, Tokyo



Bank of Japan: deregulation is at critical point

nese banks that growth is no longer a good thing," says Mr Robert Zielinski, a banking analyst at Jardine Fleming Securities. "It has also dawned on them that they made a lot of bad (foreign) loans, so by limiting their asset growth, the

profitability of overseas operations increases."

When Japanese stock prices were high and capital was plentiful, banks measured their success by market share, trying to grow as much as possible. But approaching

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INTERNATIONAL BANKING 6

EUROPE 1992 no longer quickens bankers' pulses as it did a year or two ago: there are too many distractions, such as the emergence of the east European market and the clouds of recession.

However, this has not prevented the prospect of a single banking market from continuing to be one of the strongest forces shaping banking strategy in Europe. A string of recent deals shows that bankers remain keen to forge cross-border alliances and acquisitions.

Barclays Bank has spent several hundred million pounds buying two banks in France and Germany, Européenne de Crédit and Merck, Finck, following which it now has a foothold in the EC's major banking markets, and is emerging as one of the largest multinational banks. It has also begun to export its expertise in credit cards more aggressively, most recently with a move into the German market where card ownership is among the lowest in Europe.

Crédit Lyonnais has preserved its reputation as Europe's most acquisition-minded bank with a string of smaller deals, most recently in northern Spain, where it is negotiating to buy Banco Ibero as part of its strategy of becoming a full service bank throughout the EC.

"Our top priority is to build a major bank in Europe," says Mr. Bernard Thiolon, the group's general manager.

Many banks have preferred a more limited strategy and have concentrated on acquiring stakes in other banks so as to foster closer relationships.

Banque Nationale de Paris bought five per cent of Kleinwort Benson, the London merchant bank, and Dresdner Bank bought a similar stake in the Banesto group, which controls one of Spain's biggest banks.

Dresdner also has a partnership with BNP to work together in the single market. The two banks hope eventually to seal it with a cross shareholding.

One of the most ambitious deals - if it comes off - will be an exchange of stakes between Commerzbank, Germany's third largest, and Crédit Lyonnais. The two banks will probably buy up to 10 per cent of each other. Executives at the two banks say the deal is the best way to gain access to each others' markets because other routes, such as acquisition or building from scratch, are not practical.

At a more workaday level,



Thiolon: 'Our top priority is to build a major bank in Europe'



Lord Alexander: seeking to retain London's pre-eminence

1992 remains a strong force shaping European banking strategy.

The lure of the single market

several banks have also signed co-operation agreements which bind them to share services without necessarily acquiring mutual stakes. Typical was a five-bank agreement signed in March between Crédit Agricole of France, Rabobank of the Netherlands, Banco Ambrosiano of Italy, Lloyds Bank of the UK and Bayerische Vereinsbank of Germany to allow each others' customers access to their branches.

Many of the deals have been made not just to enter new geographical markets but to acquire new expertise. This has been particularly true of acquisitions made in London, where foreign banks have sought merchant banking and fund management skills.

The most eye-catching remains Deutsche Bank's 18-month-old purchase of Morgan Grenfell for almost £1bn. The two banks are building up their relationship, though progress has been hampered by the UK recession and the slump in corporate finance activity which produced a disappointing fall in Morgan's profits.

Nonetheless, Mr Guy Dawson, the head of Morgan Grenfell's corporate finance department, says he is pleased with progress. "This is an opportunity to

build a genuine international advisory network using our merchant banking strength and Deutsche Bank's network reach," he says. "But it will only work if we are seen to be independent of Deutsche Bank."

There are similar ambitions at Chartered WestLB, the joint venture merchant bank between Standard Chartered and Westdeutsche Landesbank. Business is building up after a

Many deals have been made not just to enter new markets but to acquire new expertise

slow start, says Mr Patrick Macdougall, the chief executive.

In Brussels, much of the regulatory work in the banking area is now complete, according to Sir Leon Brittan, the commissioner responsible for financial services. The Second Banking Directive, which establishes the "passport" which will enable banks to migrate freely across EC frontiers, comes into force at the end of next year. Other measures dealing with capital adequacy and large exposures are in the works.

One big stumbling block that has cropped up is the UK government's attempt to limit acquisitions of UK companies by foreign state-owned entities for fear of "nationalisation by the back door". This has had a big impact on the banking sector because so many large Continental banks are owned by the state.

Although Mr Peter Lilley, the UK trade minister, was unsuccessful in his attempt to block the purchase of Woodchester, an Irish leasing company with a big UK presence, by Crédit Lyonnais, he prevented the same bank from buying Signet, the UK credit card company. Crédit Lyonnais responded by lodging a complaint with the commission.

Significantly, the Bank of England has added its voice to concerns about the growth of state-owned banks. Mr Brian Quinn, the head of supervision, said recently that state ownership of banks could hinder the evolution of the single market because it limits competition. He said EC governments would have to get used to the idea of loosening national control over their banking systems if the single market was to evolve.

But Mr Thiolon of Crédit Lyonnais counters: "The fact of belonging to the state does not

imply uniformity. We demonstrate total management autonomy."

The tough stand taken by the UK comes at a time when it is trying to reinforce London's claim to be the leading financial centre of the EC. That position has been seen as vulnerable because of the City's high costs and growing regulatory apparatus.

However, the UK's entry into the exchange rate mechanism of the European Monetary System last October was a welcome boost to the City because it carried a political commitment to the process of financial integration with Europe.

The Bank of England is now working to build London as a centre for trading in the Ecu against the day when monetary union becomes a reality.

The prize every EC country has its eyes on is to become the home of the proposed European central bank. Lord Alexander, the chairman of the NatWest Bank, made the strongest pitch yet on London's behalf when he said earlier this month: "Our pre-eminence must be maintained on merit - or jobs, prosperity and international influence will evaporate overnight."

David Lascelles

COMMERCIAL BANKING

Caution is the new watchword in lending

A COMBINATION of the recession in the Anglo-Saxon economies and new capital adequacy requirements has led many international banks to look even more cautiously at their lending activities.

The Basic international capital adequacy requirements have had a considerable impact on the loans market. They have forced many banks - particularly the Japanese - either to limit the growth of their assets or reduce their loans books to meet the internationally-agreed standards for the ratio of capital to assets.

Japanese banks accounted for some 40-50 per cent of new lending in the late 1980s. However, concern about the capital adequacy requirements means that they have refrained from participating in the lending market to a great extent. However, one Japanese banker estimates that Japanese banks would account for perhaps 20 to 25 per cent of new lending for the rest of this year.

So what has this meant for those companies which do want to borrow money?

There is no doubt that after years in which the competition was so tough that banks had to fight for business, the shoe is now on the other foot. Bankers find that they are in a position of control. The most noticeable effect is that they can demand a higher price. Pricing on loans - the margins over London interbank offered rates and various fees - has doubled, if not tripled, in the last two years.

The head of one of the larger syndicated loans teams in the City says: "Fees were far too tight before. Bankers couldn't live with that, they couldn't make profits. Take the case of a single-A rated UK company. Two years ago, the margin over Libor would have been 15 base points. A year ago it would have been 20-25 base points. Now it would be 45 base points."

Banks are also in a stronger position to demand tighter financial ratios and more detailed covenants. For example, in some cases bankers require interest cover (profit divided by total interest charged) to be in the range of

2.25 times. Bankers say that in cases where interest cover was part of the covenant a year or so ago, it might have been 1.5-1.75 times.

Likewise gearing (the debt-to-equity ratio) has also become a matter of concern. A year ago, gearing ratios of up to 150 per cent were acceptable. Today, bankers feel more comfortable if the upper limit is kept to 100-125 per cent.

They also feel the need to scrutinise company accounts at more frequent intervals, asking for half-yearly or even quarterly management accounts so that they can keep a closer watch on the company's financial position.

Many of the top quality banks claim that they feel less comfortable about lending to a company unless they are given these reassurances. Of course, while banks find themselves in a position of power stemming from the shortage of

company after another has taken advantage of the renewed post-Gulf War institutional appetite for equities to reduce gearing.

Other companies feel "safer" using bilateral loans, or borrowing from a very small group of banks as they dislike the idea that their loans could be sold on to a much larger group of banks. If loans are sold on, it can make renegotiation much more troublesome - as Mr Rupert Murdoch discovered with News Corporation's bankers.

The economic slowdown - exacerbated by worries about the situation in the Middle East in the second half of 1990 and early 1991 - has led to a slowdown in the volume of new syndicated loans business. As a result, few banks are leading up their syndicated loan teams - indeed, National Westminster has decided to cut back staff - though most believe that the gloomy economic conditions will prove short-lived.

Some banks are wondering whether British companies will return to the loans market in the next year or so as their multiple option facilities (Mofs) come up for renewal.

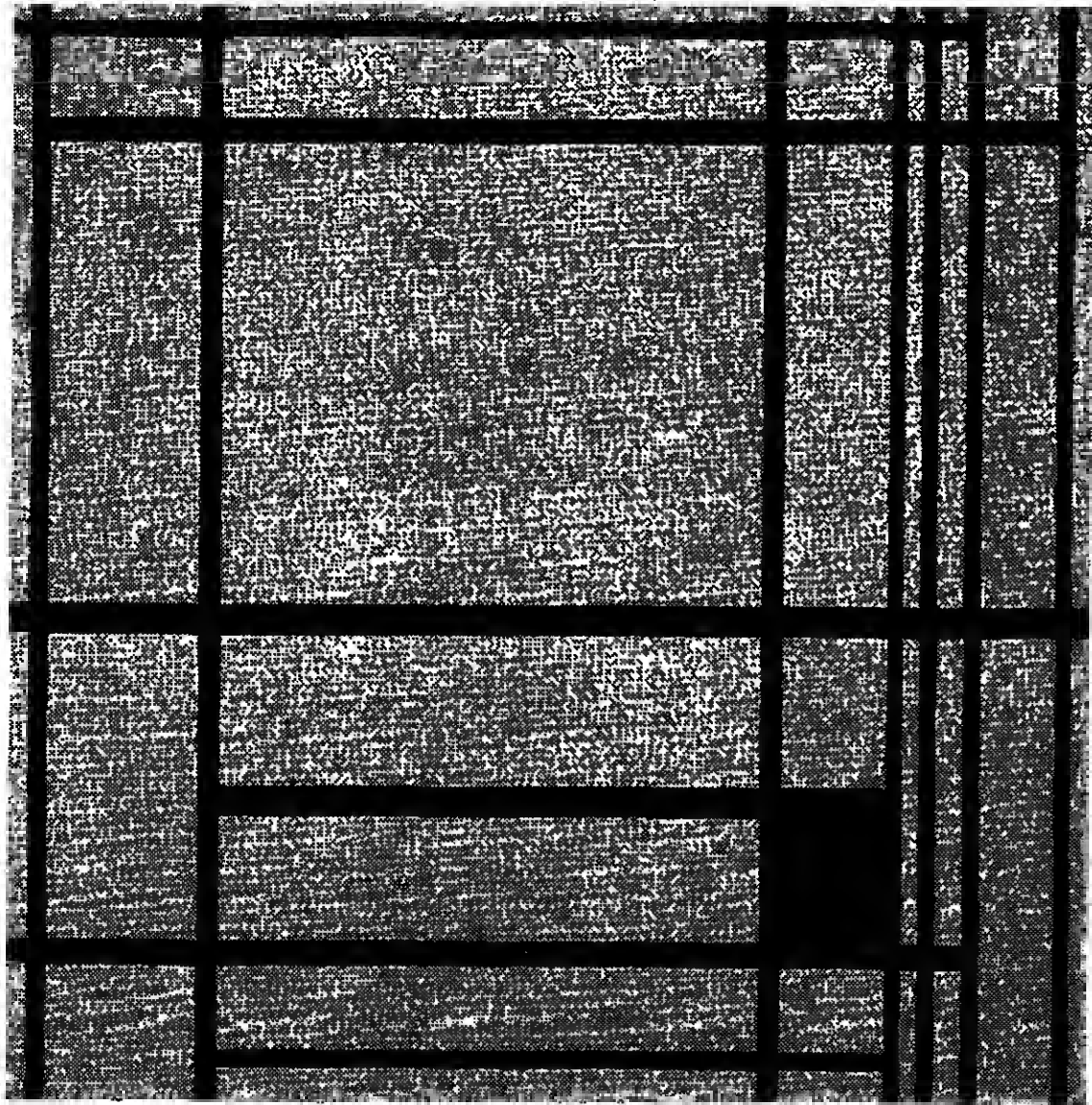
Many British companies set up Mofs in the late 1980s because they provided a range of competitive standby funding options. They were often arranged on very favourable terms for the borrowers. Banks were keen for the business so pricing was aggressive: hence a company pays a fee to be able to draw on funds, often at a rather thin margin over Libor.

A lot of companies took Mofs as a form of cheap "insurance" in case they needed to draw on extra funds. In the event, companies needing funds were often unable to fall back on these facilities as technical breaches of loan covenants allowed banks to wriggle out of their obligations.

One senior banker points out that in many cases the companies arranged to be able to borrow far more than they needed. In his view, such companies are unlikely to renew their borrowing arrangements.

Sara Webb

Composition with blue, Mondrian, 1937, Haags Gemeentemuseum.



© Mondrian, 1937, Haags Gemeentemuseum.

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INTERNATIONAL BANKING 7

GERMANY

East path strains resources

GERMANY'S BIG THREE BANKS - RESULTS FOR 1990, IN DM						
Bank	Total operating profit	Partial operating profit	Net income	Net interest income	Net fee income	Dividend
Deutsche Bank	5,190m (+9.7%)	4,530m (+17%)	1,070m (+20.4%)	9,100m (+20%)	3,800m (+29%)	14 (14)
Dresdner Bank	1,850m (+4%)	1,850m (+4%)	521m (+42%)	4,730m (+11.9%)	1,850m (+1.7%)	12 (12)
Commerzbank	(na)	1,980m (+18.3%)	557m (-0.01%)	3,430m (+13.1%)	1,340m (+11.2%)	10 (9)

*Excluding own account trading. Source: Company Reports

IN INTERNATIONAL terms, the 1990 results of the big three German banks look more than respectable. Earnings were considerably boosted by strong credit growth accompanied by slightly wider interest rate margins; balance sheets remain basically solid; and, important extra Germany, expanded deposit bases constitute an important extra guarantee of future profitability.

At the same time, the year in which the largest of the three, Deutsche Bank, revealed its trading profits for the first time was hazardous for both bond and equity dealers, entailing significant write-downs. Concern about the deteriorating position in eastern Europe left its mark on the accounts.

All the banks topped up their risk provisions considerably. Commerzbank, at pains to present a healthy set of figures from Mr Walter Seipp, its retiring chief executive, has raised to 20 per cent its cover on a total of DM5.3bn (\$3bn) of country risk exposure. This still leaves it well behind levels at Deutsche Bank and Dresdner, with the uncovered portion representing around 33 per cent of its capital base, compared with 9 per cent at Deutsche Bank and 15 per cent at Dresdner, according to estimates by Salomon Brothers.

The provisions boost at Commerzbank was paid for largely by sales of industrial holdings, including the extraordinary gain from disposals of its 10 per cent stake in construction company Hochtief. Deutsche Bank's addition of a further eight countries (mostly in eastern Europe) to the list of problem debtors was bought at the expense of a sharp 20 per cent fall in net income as it put aside what industry sources estimated as an extra DM1.5bn. Whether to include the Soviet Union as a problem debtor has proved contentious, with Mr Hilmar Kopper, chief executive of Deutsche, revealing at the beginning of the year that his bank was for the first time making provisions, while Mr Seipp and others have fiercely criticised the move as politically insensitive (Commerzbank is less exposed



The Dresdner Bank building high in the east

to the USSR, with perhaps DM500m in outstanding loans).

In terms of capital adequacy, German banks may face nothing of the difficulties of, say, the Japanese in meeting the Basel standards, but the separate institutions continue to lobby to Bonn for competitive treatment when EC capital adequacy regulations are written into national law. At the moment, highly conservative standards, upheld by both Bundesbank and the Berlin banking regulators, severely restrict the domestic institutions in what they can count as core capital. The banks still hope to be successful in persuading Bonn - with an eye on international competitiveness - to relax on the treatment of revaluation reserves.

Expansion into east Germany has represented a serious strain on resources since currency union last July, but the banks have already built up an important new depositor

base. Mr Kopper has stressed that it is the 17m east German citizens as private clients that constitute the principal allure for his bank, warranting the leap of faith involved in taking on, through the joint venture, part of the old communist banking system.

Both Deutsche and Dresdner, which also adopted this path, have been able, at least initially, to pull far ahead of Commerzbank, which opted to go it alone in building a branch network - a strategy that has proved more costly than expected. Within three months of starting, both Deutsche and Dresdner had some half a million new account holders, and gathered in deposits in excess of DM413bn apiece. Dresdner has been able to keep pace with Deutsche in its new business development," observes Mr Stephen Lewis, banking analyst at Salomon in London. "It can therefore eventually expect to achieve a roughly similar market share to that of Deutsche in the eastern states - a position it certainly does not have in the west."

All the banks have been wary in their approach to corporate lending in the east while earning useful fees from government-guaranteed loans propping up state industry. At the same time, Mr Kopper said that "a few hundred million" D-Marks had already been allocated in provisions against the restricted amount of own risk lending undertaken in consumer finance and small business - an indication of just how severe the economic climate in the east has been.

While eastern Germany has proved a drain on resources, the banks have not entirely neglected the rest of Europe, particularly France. While Deutsche continues to look for a suitable acquisition, both Commerzbank (with Crédit Lyonnais) and Dresdner (with Banque Nationale de Paris) claim to be close to effecting share swaps as the basis for more intensive co-operation.

It remains questionable how effective the links will prove, but all the banks are convinced of the wisdom of a joint approach in pioneering the

tricky east European market. They also believe that the trading links between France and Germany should facilitate a closer interweaving of the financial services sector, particularly in view of the forthcoming single market.

Domestically, too, the banks are in a changing market. Anything from the growth of the credit card business to the proliferation of derivatives products testifies to the evolution of Finanzplatz Deutschland. Many new products, most notably tailored derivatives instruments, are important sources of new earnings.

Another particularly lucrative area is the upmarket end of private banking. Here the banks are in the midst of important reorganisations, positioning themselves to capitalise on the much-heralded "inheritance generation" (it is estimated that the Germans' collective net worth will nearly double by the year 2000).

From July Dresdner Bank is resurrecting the old "Hardy" private banking name to start a Frankfurt-based operation managing the portfolios of private clients worth around DM5m or more. Deutsche Bank, which has bought a majority share of the private banking house Grunelius, recently announced it would set up special units around the country to advise depositors with funds of more than DM100,000. In March Commerzbank said that it would acquire the private financial advisory unit of Matuschka, the Munich-based independent financial services group.

Other developments, such as the advent of a D-Mark commercial paper market, have more ambiguous significance. Margins are wafer-thin and the growth of money market instruments in general could eventually help erode the banks' cheap funding base.

On the whole, however, the banks see that change is inevitable, and are increasingly willing to take an aggressive role in promoting such developments.

Katherine Campbell, Frankfurt

FRANCE

The lean years

AFTER several years in which France's banks were able to compensate for the erosion of their profit margins by increasing business volumes, the merry-go-round finally slowed down last year.

With few exceptions, France's leading banks reported sharp falls in profits in 1990: down 53 per cent for Banque Nationale de Paris (BNP), down 25 per cent for Société Générale, down 26 per cent for Paribas.

The handful of banks which reported higher profits were able to do so only because of unusual circumstances. Crédit Commercial de France (CCF), for example, reflected the difficult market conditions with an 8 per cent decline in operating profits, but after securitising most of its sovereign debt the previous year it was able to slash its country risk provisions, allowing net profits to rise by 15 per cent.

Crédit Lyonnais, which announced the best figures with a 19 per cent increase in net profits, did so only because of the integration of Alfas Finance, the former banking arm of the Thomson electronics group. The parent bank, like its competitors, recorded lower earnings. Group earnings per share declined, too.

The banks have been hit on a number of fronts at once, with profit margins and volumes both declining at the same time as a sharp deterioration in the quality of credit risks.

In the capital market sector, banks continued to record poor results. Low stock market trading volumes and a weak new issues market remained problems, while the inverted yield curve continued for most of the year to make it difficult to turn a profit in the interest rate markets.

Corporate lending showed some recovery in volume, but this was more than offset for most banks by the impact of defaults, both in France and abroad, where banks like Crédit Agricole, Paribas, Indo-

suez and Crédit Lyonnais were caught up in several of the more spectacular British bankruptcies. Crédit Lyonnais nearly doubled overall provisions for specific customer risks to FF4.1bn; the Paribas group raised its by 40 per cent to FF4.95bn.

Some banks, like Banque Française du Commerce Extérieur (BFCE), recorded a modest improvement in lending margins in 1990. BFCE found its average margin, which had fallen by a full percentage point over the four previous years, rose slightly last year to 64 basis points, and this has improved again in the first months of 1991.

Most banks, said that any reversal in the downwards trend for lending margins had taken place only late in the year. Société Générale, for example, said its average lending margin had fallen by 42 basis points over the course of the year.

Consumer banking, too, brought its headaches last year. After long neglecting this segment of the market during credit controls, the big high street banks have undertaken a breakneck expansion of their consumer loan portfolios in recent years. Last year, the rate of increase slowed down, and the problem loans began to surface - as consumer credit specialists such as Compagnie Bancaire and Banque Sofinco had long warned they would.

This problem was aggravated by the introduction of the Neiertz law - named

after Mrs Véronique Neiertz, minister for consumer affairs - which set up mechanisms to allow over-indebted people to negotiate out of difficulties. The banks complained that the law has mostly benefited people who are sufficiently cunning to exploit its workings, and who, in addition, have usually lied to their creditors about their other borrowings.

The finance ministry paid some heed to the complaints, and has modified the rules governing money market funds to enable banks to recycle a greater proportion of their captive funds into their own certificates of deposit.

This decision, which involves a relaxation in the rules obliging mutual funds to spread their risks by allowing money market funds to hold up to 25 per cent of their assets in the securities of a single issuer, has been contested as a dangerous reversal of principle, with potential long term investor protection risks. Finance ministry officials defend the decision, however, on the grounds that money market funds have a logic quite different from that of equity and bond mutual funds, and arguing that investors are still well protected.

One final aspect of the deterioration of bank profitability is the substantial rise in operating costs, a rise which augurs ill for the sector's ability to manage its way through hard times.

This costs spiral sounds a note of warning for the future of France's banks. Compared with their international competitors, they can for the most part boast sound, well-provisioned balance sheets, well-developed international networks, and expertise in electronic banking systems and collective money management techniques, but they may have to tighten their belts if they are to survive in lean years.

George Graham, Paris

AUSTRALIA

Unhappy legacy

revealed an 18 per cent fall in interim net profit to A\$361m, and also took the axe to its dividend, which was cut by four cents to 22 cents. Mr Don Argus, managing director, said he did not expect the economy to bottom out until early 1992, and suggested the recovery might be delayed until the middle of the year.

The big problem for the banks is the level of bad debts charges against profits. Between them, the big four banks wrote off more than A\$3bn in bad debt charges for the year to September 30, more than double the charge in the previous year. They also revealed non-accrual loans totalling nearly A\$7.8bn, which rose to A\$11.7bn after including other problem loans and facilities.

On top of that, Westpac wrote off a further A\$552m in the first half of the current year, and NAB nearly doubled its charge to A\$456m. ANZ was expected to more than double bad debt charges from A\$225m to around A\$325m, and more than halve net profits to between A\$104m and A\$140m, compared to A\$310m last year.

The banks deny that their problems were caused by their lending to Australia's 1980s generation of high profile entrepre-

neurs, many of whom have crashed with massive debts. "No-one would have thanked us if we had not sought to maintain our share of the growth of the Australian economy," Sir Eric said.

In fact, the banks' share of the Australian home market has increased as a rapid tightening of margins has forced the smaller banks, especially those based abroad, to reduce their exposure. Several significant takeovers raised the big four banks' share of Australia's total banking assets from 65.5 per cent to around 75.5 per cent in 1990. The biggest single increase came from the A\$1.6bn takeover of the State Bank Victoria by the Commonwealth Bank. This was also the catalyst for the partial privatisation of the Commonwealth Bank by the federal government, which plans to offer a 30 per cent stake to investors next month in what will be one of the country's biggest capital raising exercises.

Other significant takeovers last year included the acquisition by ANZ of the National Mutual Royal Bank and the Perth-based Town and Country Building Society. The acquisition of the NMRB, formerly a joint venture between the National Mutual Life Group and the Royal Bank of Canada, followed the government's rejection of a more radical ANZ plan for a A\$3.4bn merger with National Mutual, the second biggest life office.

The plan was blocked by Mr Paul Keating, the federal treasurer, on competition grounds, but the government's action has not stopped speculation that further banking mergers and banking/insurance deals are likely when the economy recovers.

Kevin Brown, Sydney

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INTERNATIONAL BANKING 8

The growing links between banks and insurers

Boundaries blurred

BANKS will sell more and more insurance policies to their customers during the 1990s.

As would be expected for a phenomenon now generally referred to as bancassurance or *Alifianz*, the linkages between retail banking and personal insurance, especially life insurance, will be most evident in Europe, where liberalisation of financial services is most advanced.

However, with the advantages of integration becoming increasingly clear for both banks and insurers, pressure is building in the US and Japan for the barriers separating the two industries to be scrapped. "Any thinking banker can't deny the success being experienced by European bancassurance operations," says Mr Michael Hefner, chairman of Lloyd's Abbey Life, one of the most successful UK link-ups.

Europe's three biggest markets already indicate the shape of things to come.

● Most of Germany's leading banks and insurers are entangled in a bewildering series of national and regional alliances, including those between Dresdner Bank and Europe's biggest insurer, Allianz.

A recent report from Salomon Brothers suggests German banks will at least double their 15 per cent share of life and pensions market over the next few years.

● French banks now write more than 50 per cent of new life business. In one of the most impressive success stories, *Prudential*, the life insurance subsidiary of the bank *Credit Agricole* created in 1987, is now one of France's top three life insurers.

● Many UK building societies have forged ties with life assurance companies. The Halifax's connection with Standard Life is among the most significant, while the Trustee Savings Bank's TSB Life is described by Salomon Brothers as "a role model for banks entering the insurance market". Lloyd's Bank has moved closer than any other bank towards an integrated bank/insurance approach through an innovative deal in which Lloyd's transferred five subsidiaries into Abbey Life (including Lloyd's existing life company, Black Horse Life) in exchange

for 57.6 per cent of Abbey Life's shares.

Bank-insurance links have also been concluded in Denmark, Italy, the Netherlands, Spain and Sweden. The merger earlier this year between National Nederlanden, the largest insurance company in the Netherlands, and NMB Postbank, the country's third-largest bank, created one of Europe's largest financial services businesses.

Underlying the business logic of the link-ups is increasing competition. European banks have seen operating margins get much tighter over the last ten years. In particular, as interest-bearing current accounts have become more

French banks now write more than 50% of new life business

common in a number of European countries, banks have faced a sharp increase in the cost of their deposits. Competitive pressures - in part stemming from deregulation - have also pegged back the rates at which banks can make profits from their core lending activities, forcing banks to seek ways to increase productivity. This is particularly true in countries such as Portugal, Spain and the UK, where branch networks are dense.

Computerisation and information technology have opened up new possibilities of managing a wider and more diversified customer base, and banks have been looking for new products to sell.

Life insurance has been an obvious market for two principal reasons. First, during the 1980s life insurers were increasingly concerned with developing products that offer tax-efficient ways of long-term saving (rather than those that offer compensation for death, long-term illness, and other risks) to an increasingly affluent population. As Europe becomes "greyer", its citizens are more likely to invest in private pensions and life insurance products, rather than simply leaving their money in bank accounts. Insurers, therefore, have been straying into territory traditionally regarded by bankers as their own.

Second, with competitive pressures in their own sector mounting, life insurers have been looking to reduce costs, in particular the high expenses incurred in distribution. Distribution via brokers and tied agents can be as much as three times more expensive than sales via a network of bank or building society branches. Insurers can find it easier to sell via bank branches because of the generally good personal relations between a bank and its customer base. Especially in northern Europe, banks can rely upon a particularly loyal customer base. Life insurance sales staff selling through bank networks - using lists as "warm leads" - have been very successful in the UK and Ireland. Mr Hefner of Lloyd's Abbey Life says sales personnel can sell roughly three times more policies a week than their colleagues working for traditional life companies.

Banks have also examined the possibility of selling non-life insurance products, especially simpler home contents and home buildings packages. But this has proved a trickier proposition. The possibility that a home or motor insurer may question the amount or validity of a claim with relative frequency creates the scope for conflict between an insurer and a customer. Banks fear that by selling non-life products they could damage their good customer relations.

In the UK, the National Westminster Bank has circumvented this problem by opting to act as an insurance broker - earning a commission for its sales of policies - for both life and non-life policies.

In Spain, one of the most sophisticated examples of a bank insurance tie-up - that between the Barcelona-based Banca Catalana, which sells the life products of the Norwich Union subsidiary, Plus Ultra - could offer a clue to the course of future developments. Banca Catalana sells savings-related life products directly via its branches but operates as an agent - earning commissions on sales - when it sells Plus Ultra's non-life and risk-based life insurance, such as term assurance or critical illness covers.

Richard Lapper

Canada's banks are seeking to expand in the US

Prudence pays off

ROYAL Bank of Canada's chairman Mr Allan Taylor visited Wall Street last month to remind US analysts and institutional investors that the debt rating of North America's second biggest bank was lifted in 1989 and 1990, and confirmed this year.

Mr Taylor was gently making the point that, while Canadian banks have taken a knock in the past year and are no longer the force they once were in international capital markets, they have the satisfaction of being under less financial pressure than many of their US counterparts.

Indeed, the troubles in the US banking system appear to be helping Canada's banks gain new business in the US, a market which most of them have targeted for future expansion.

The Canadians are reaping the benefits of their extensive nationwide retail networks, which provide a relatively high proportion of stable, low-cost funds. On the assets side, they have (with one or two notable exceptions) been more prudent than the troubled US institutions in financing leveraged buy-outs and commercial property development.

Ms Helen Sinclair, president of the Canadian Bankers Association, says that "through the 1980s, we passed up on a lot of the racier activity. There's a feeling that adherence to sound banking principles has been seen to pay off."

The collapse of several small banks in Canada in 1988 and 1989 may have contributed to the caution. The Superintendent of Financial Institutions now takes a closer interest in all the banks' loan portfolios. Under pressure from the regulator, banks have sharply increased Third World loan loss provisions and have moved to comply with capital requirements set by the Bank for International Settlements.

Most banks have posted creditable performances in a climate of high interest rates and weakening business conditions. Although earnings fell by 15 per cent in the quarter to January 31, Royal Bank still enjoyed a 15.3 per cent return on equity, its nearest rival, Canadian Imperial Bank of Commerce, had a return on equity of 14.2 per cent. Bank of

Montreal's earnings were virtually unchanged from a year earlier, with a return on equity of 14.5 per cent.

It would be wrong to conclude, however, that the banks have sailed through the recession unscathed. Bad debts and non-performing loans have risen substantially in the past year, and are expected to climb further in 1991.

Toronto-Dominion, long regarded as the star of Canadian banking, lost its Moody's Triple-A credit rating earlier this year. Heavy exposure to the depressed Ontario economy has cost it dearly; loan loss provisions almost doubled in the past year, while non-performing loans soared to

'Through the 1980s, we passed up on a lot of the racier activity'

C\$1.34bn (US\$1.15bn) from C\$517m a year earlier.

The non-performing portfolio of Bank of Nova Scotia, which made the mistake of rushing into the US commercial property market, has tripled in the past year to C\$1.4bn - though BNS boasted a first-quarter return on equity of 14.9 per cent.

National Bank of Canada, the smallest of the six, saw its return on equity slide from 18.9 per cent in the first three months of fiscal 1990 to 2.4 per cent in the final quarter - though it bounced back to 13.4 per cent in the first quarter of fiscal 1991. National's problems included a C\$188m write-off of loans to Mr Robert Campeau, the hard-pressed founder of the real estate and retailing group which bears his name, and an exposure to Polly Peck, the failed British fruit-to-electronics conglomerate.

Although the business climate is the banks' main concern at present, they are also keeping an eye on financial service reforms which the government hopes to put on the statute book within the next year or so.

The proposed legislation will open new windows of opportunity and competition. On the one hand, the government proposes that banks be allowed to expand into insurance and fiduciary services by owning

insurance and trust companies. (One important caveat is that the banks will not be allowed, for the time being, to offer these services through their own branches. They will also be barred from motor vehicle leasing.)

But the proposed legislation will also expose banks to competition from other financial service groups. Trust and insurance companies are to get virtually unlimited consumer and commercial lending powers. Widely-owned institutions - such as mutual insurance companies - will be allowed to own banks, other than the big six, in which no single shareholder can have a stake of more than 10 per cent.

The banks' response is likely to be more varied than their halter-skeeter rush to buy brokerage firms when ownership cuts in the securities industry were lifted in July 1987. At that time, only one of the six, Toronto-Dominion, chose to build up its securities business from within.

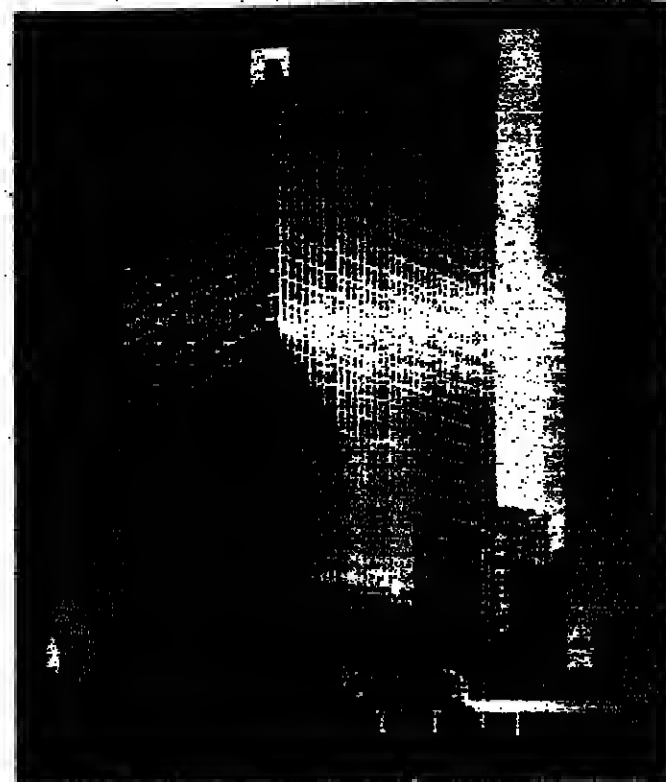
Ms Sinclair predicts the legislation will result in a more diverse financial services industry where, as she puts it, "there will be banks, life insurers and trusts that look similar, while two banks may look very different from each other."

Most banks have already forged marketing alliances with trust and insurance companies, and some have indicated that they are also interested in acquisitions. Mutual-fund management is emerging as another attractive hunting ground.

As their glee over picking up new business in the US indicates, Canada's banks are anxious to expand their presence south of the border, not only in the US, but also to a lesser extent in Latin America.

The prospect of a North American free trade area and Mexico's promising economic outlook has encouraged the banks to take a greater interest in Mexico. Several have long had extensive operations in the Caribbean, while BNS earlier this year bought a 24 per cent stake in Chile's sixth-biggest bank, Banco Sud Americano.

Bernard Simon, Toronto



Royal Bank enjoyed a 15.3 per cent return on equity

Canada's 'Big Six' banks, three months ended January 31 1991				
	Net income (C\$bn)	Assets (C\$bn)	Return on equity	Capital ratio ²
Royal Bank	222.0	130.8	15.3%	8.1%
CIBC	219.5	123.4	14.5%	7.9%
Bank of Montreal	128.6	91.4	14.5%	8.1%
Bank of Nova Scotia	140.2	88.8	14.9%	7.8%
Toronto-Dominion	128.1	70.2	10.8%	8.2%
National Bank	55.3	36.3	13.4%	8.4%

¹As at January 31 1991. ²Total, risk-adjusted ratio of capital to assets, as at January 31 1991. Source: Company Reports

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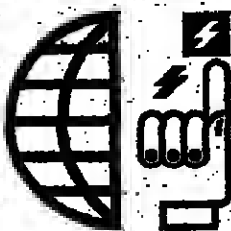
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WORLD PAPER AND PULP

SECTION IV

Friday May 24 1991



In a little over a year the mood of the industry has changed almost beyond

recognition. At the end of the 1980s producers looked forward to a new era of opportunity yet now they are disappointed and disillusioned. John Thornhill reports on the change in outlook

The talk is full of gloom

WHAT a difference a year makes. On the eve of 1990, the pulp and paper industry seemingly stood on the brink of a new era of exciting opportunities.

The industry was experiencing one of the strongest spurts in demand and profitability that it had ever seen: a wave of acquisitions and restructurings was reshaping the competitive map; a worldwide programme of unparalleled investment was being undertaken; and new and enticing markets were beckoning in eastern Europe.

Yet in a little over a year the mood of the paper industry has changed almost beyond recognition.

As Mr Hartwig Geginat, president of the European Paper Institute, told a recent industry conference in London "the year that began with great promise ended with disillusion and disappointment".

The talk is almost all gloomy. The industry's vast paper machines built at enormous expense are running at slow speeds; capacity is being cut; profits are tumbling alarmingly; and companies are shedding workers.

What has brought about this sudden change in outlook?

In part, the paper industry is suffering from one of the downturns in its trading cycles that periodically disfigure its markets.

As demand picks up at the beginning of a trading cycle, the paper companies reap great profits which are then invested in building additional capacity. As supply begins to outstrip demand the market sours and the industry struggles on until the imbalances in the market correct themselves and the upswing begins again. At present, the market is bumping along the bottom. There are, as yet, few signs that the upturn is on the way.

Yet there are also those who argue that this latest downturn represents more than just a cyclical phenomenon and that the industry has crossed an irrevocable threshold.

The 1990s, they argue, will represent a far more challenging decade as the industry is beset by problems from many sides. They can be listed as follows:

● The environment. Whether the industry likes it or not, environmentalism is here to stay. Although the pulp and paper industry has done much to combat its image regarding the environment it still faces considerable pressure from

consumers to change its ways. These companies that are unwilling to evolve, or simply cannot afford to, will suffer mightily in the coming years.

The environmentalists are not only challenging how forests are managed and what production technologies are used in producing pulp and paper but they are also questioning the product itself and calling for reductions in consumption levels. For paper makers, this raises the frightening spectre that the unwritten rule that links paper consumption increases with the general rise in GDP may be broken.

● International trade. Earlier this year the US International Trade Commission began investigating several European coated groundwood paper companies after receiving complaints from the American Paper Institute about alleged unfair pricing practices. This has enraged many European paper companies who are suffering from the downward pressure on prices caused by

the import of surplus paper capacity from the US producers.

Some US companies have expressed gripes about the restrictiveness of other national markets, particularly the Japanese. The threat of protectionism looms.

● Cost structures. Some of the traditionally strong paper producing countries will face great pressure in the coming years to compete on equal terms because of the high cost structures that prevail in their domestic markets.

In particular, the Swedes and the Finns are grappling with the high costs of raw materials, energy and labour although both countries look as though they are over the worst of their troubles.

Some lower cost countries, such as Chile and Brazil, are beginning to make an impact in the global market and this process will surely accelerate.

Chile has three paper machines coming on stream this year. Eastern Europe may also prove to be a locus of low cost competitive manufacturing in the coming decade.

Sir Adam Ridley, a director of Hambros Bank which has been appointed to help privatise the Polish industry, says: "If you have good forest resources, low costs, and high potential for domestic demand, then you have great growth prospects."

● Over-capacity. The extent of the investment by the paper companies in adding new capacity in recent years may well haunt the world industry for some time to come as it has served to deepen its cyclical troughs. In the next two years the pulp market will add nearly as much capacity as it has in the previous decade with a consequent unpredictable effect on prices. Even the highly-rational Japanese have been suffering as a result of over-aggressive investment.

The new mills and machines that have recently been built are enormous in scale - the workers move around them on bicycles or scooters - and the addition of one machine for a

CONTENTS

North America: excess capacity in the US and a painful period of transition for Canadian groups	Page 2
Sweden: remains dominant in Europe as SCA takes a breather after a hectic period of acquisitions	Page 3
Environment: losing the green public relations race	Page 4
Finland: struck from all sides	Page 4

consolidation of the industry is bound to follow the waves of restructurings and acquisitions that dominated the sector in the 1980s. Companies from across the world have been widening their horizons and Europe in particular has become the focus of their activities.

The Swedes have been particularly active and in the past few years their companies across a range of industries have invested more in the European Community countries than either the Americans or the Japanese.

Mr Bo Wergens, head of the Swedish Pulp and Paper Association, says: "The Swedes have been early Europeans. We regard Europe as our home market because of its geographical location, tradition and culture. It has become the forum for internationalisation and the players in Europe have to be very competitive."

Yet this process of consolidation will be closely scrutinised by the competition authorities in Brussels. The European Commission's investigation into alleged price-fixing agreements in the carton board sector is an indication of how closely they intend to patrol their beat.

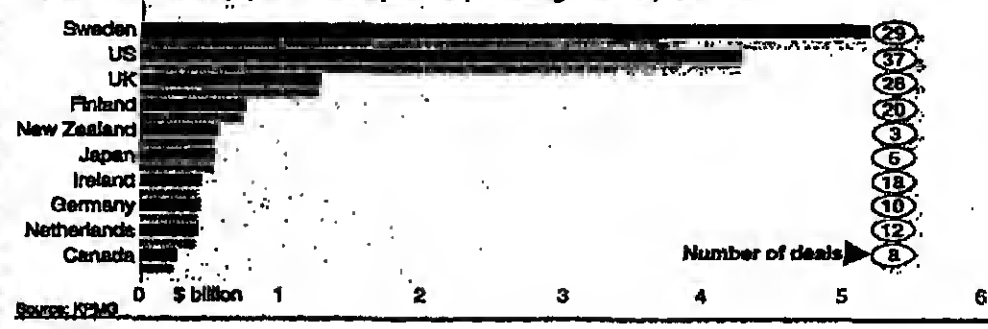
All of these issues will create a far more complicated and challenging environment for the world pulp and paper industry in the 1990s. The winners that are likely to emerge are those that can demonstrate financial strength, flexibility and a above all a determination to understand and satisfy the desires and needs of their customers.

Mr Dermot Smurfit, joint deputy chairman of the Irish paper and packaging company, Jefferson Smurfit Group, predicts: "On quality the basic proposition will be that a pulp, a paper or a package performs first time every time and this will be a prerequisite for doing business in the future."

How quickly the industry will recover its confidence will depend upon the speed and extent of the economic revival in the world's recession-hit markets. But doubtless demand will pick up again, profits will return and confidence will be restored. The peculiar problems of the early 1990s may pale as previous perceived threats - such as the development of electronic communications - have done. It is now hard to imagine a paperless office; even harder to conceive of a paperless society.

Purchasers

Top ten cross-border paper and board products purchasing countries, 1988 - 89



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WORLD PAPER AND PULP 2

UNITED STATES: in the throes of a downturn

Excess capacity in softer markets

THE US paper and pulp industry is in the throes of a severe economic downturn which could lead to a substantial shake-up in the sector, involving takeovers, mill closures and changes in product mix.

To a considerable extent the problems are those of the sector's predictable economic cycle: new mills were planned during the golden years of the mid to late 1980s, when margins were strong, but are now leading to excess capacity just when the market has softened.

Since paper mills get a very large percentage of their operating profits from the last 10 percentage points of production, their earnings are very sensitive to relatively small changes on both the supply and demand side.

A survey last December by the American Paper Institute, an industry umbrella body, found that 18 new paper machines were expected to come on stream between this year and 1993, adding some 7.5m annual tons of capacity, a rate of increase of some 2.9 per cent a year, to take the total US paper and paperboard capacity to 91.5m tons.

Yet this comes as demand is weak - particularly in paper grades: in the first quarter of this year US paper grades production was 2.7 per cent down on the same period of 1990.

The result has been strong downward pressure on prices and earnings, and the problems will be exacerbated over the coming months if the dollar keeps on strengthening. The weakness of the dollar has given a strong lift to US paper exports in recent years, and while this trend continued in early 1991 - paper exports were up 11 per cent and paperboard 22 per cent in the first two months - the recent sharp rise in the US currency seems certain to have halted the trend.

The impact of these factors showed up in first quarter earnings. While combined sales of 24 publicly-quoted US paper companies fell just 4 per cent on a year before, first-quarter profits were nearly halved. With the

exception of Kimberly-Clark, which has a niche position in the buoyant tissue market, the leading US companies all announced steep declines in earnings.

Mr Gary Palmero, an analyst at Oppenheimer & Co, estimates that US forest products shares are now at their biggest discount - over 50 per cent - to book value since 1987.

For some companies the perennial problems of the economic cycle have been exacerbated by the heavy debt loads they took on in the 1980s, both for capital investment and for acquisitions.

One of most heavily geared is Georgia-Pacific, the world's largest manufacturer of paper and wood products, which took on an additional \$5.4m in debt to fund its purchase early last year of Great Northern Newspapers.

With the benefit of hindsight, Wall Street has been questioning the timing of that bid, given that it was made right before a cyclical downturn, making it both harder to service the debt and to get good prices in asset sales. Georgia-Pacific has cut group debt through an asset disposal programme to \$6bn, or 62 per cent of capital, but analysts say it could be a long time before the group reaches its target level of 45 per cent.

In sharp contrast to Georgia-Pacific, which has been reducing its presence in Europe through its debt reduction programme, stands International Paper, another of the big US companies which been moving aggressively to build up European assets over the past two to three years in the hope of benefiting from the European Community's 1992 initiative.

Amid the recession, the industry is having to cope with growing environmental pressures. These take three main forms.

First, companies are having to speed more and more capital equipment to meet more stringent emission control standards. Over \$1bn is estimated to have been spent in both 1989 and 1990.

Secondly, the US Fish and Wildlife Service recently designated 11.6m acres of the Pacific North-west as habitat of the endangered Northern Spotted Owl.

The result could be severe logging limits on those acres, pushing up the price of wood chip and lumber for local producers.

Thirdly, companies are under strong pressure to use recycled paper in the manufacturing processes, particularly newsprint.

The recession and environmental pressures are affecting different parts of the industry and different companies in markedly different ways.

One of the sectors hardest hit by the recession is the US construction industry, and this has had a knock-on effect on the solid wood side of the industry, which has suffered a slump in demand.

Market pulp, the raw material used to make paper, has seen its price drop through the floor: northern bleached softwood kraft, the bellwether variety of pulp, has dropped from \$840 a metric tonne in 1989 to a list price of between \$600 and \$700, although analysts believe it is being discounted to about \$580 and the price could go lower still.

Linerboard, used for boxes, has so far weathered the downturn fairly well, with prices dipping from about \$440 a ton at the peak to about \$360 now, still well above the cash costs of production.

Newsprint has been hit hard by a downturn in advertising which began affecting the north-east of the US last year and is battering California - all at a time when manufacturers face another year of new capacity coming on stream. The coated paper market has been hit by the advertising downturn and new capacity coming on stream.

Analysts suggest that some of the financially healthier companies may start to pick off weaker brethren over the next year or two.

Martin Dickson, New York

HOPES that the pulp business may have escaped its traditional boom-and-bust cycle evaporated rapidly when the price fall began back in early 1990.

In April this year, there was a shaky attempt by producers to halt the fall. They hoped it would mark the bottoming out of the cycle, rather than a little hiccup on a continuing downward path.

Measured by price, the market in Europe, which is a reliable indicator for others in the international market, peaked at the end of 1989. The CIF price at that time for Northern Bleached Softwood Kraft (NBSK) pulp, the prime grade, reached DM1,630 per tonne for pulp made in Europe, mostly in Finland and Sweden, and \$340 per tonne for imported North American shipments.

These prices were, respectively, 55 per cent and 75 per cent above the prices at the end of 1986, when the price rise began.

Since then, the price of European NBSK pulp has dropped to about DM1,050-1,100 per tonne, down 35 per cent, and the US equivalent to about \$650, a fall of about 23 per cent. This swift decline is generally reflected in the other grades of market pulp.

Such a roller-coaster market has a large effect on non-integrated woodfree paper makers in Europe. The cost of this pulp, an essential raw material, accounted for 60 per cent of the sales price in 1986. By early 1990 it had reached 80 per cent but by the first quarter of 1991, it was back at 65 per cent. It is not always possible for paper makers to pass on these price changes as rapidly as they happen.

The important questions are: Why did it happen again? When will the market price bottom out - or has it?

The answer to the first question can be split into two. The traditional answer is that the regular but rapid cycle of demand and supply is largely responsible. In the late 1980s, growth in paper demand was setting record levels in many parts of the world so those paper makers who rely on an outside source of high-quality pulp needed more. Conversely, plans by market pulp producers to invest in new production capacity were few, and most mills were running full. Non-integrated paper mills were crying out for pulp. This tight market drove up prices.

As well as this traditional answer comes the relatively new one: the increasing importance in recent years of the

World pulp consumption (000 tonnes)									
	1982	1983	1984	1985	1986	1987	1988	1989	1990
UK	1,489	1,555	1,821	1,862	2,053	2,326	2,502	2,577	
EC	14,498	15,310	16,192	15,939	16,789	17,556	18,227	18,823	
Eastern Europe	11,746	12,325	12,631	12,785	13,985	14,065	14,302	14,237	
Total Europe	28,731	30,190	30,644	30,586	32,827	34,947	35,031	35,637	
Canada	11,424	12,588	13,530	13,472	14,048	14,977	15,271	15,528	
US	45,199	45,216	51,184	49,733	51,837	53,990	55,037	55,130	
North America	56,623	60,802	64,714	63,225	65,885	68,966	70,308	70,658	
Asia	18,328	20,182	21,311	23,080	24,105	25,616	26,253	27,758	
Australia	1,561	1,439	1,577	1,782	1,732	1,756	1,800	2,008	
Latin America	4,478	4,759	5,888	5,855	6,178	6,718	6,837	6,998	
Africa	1,399	1,420	1,312	1,320	1,362	1,365	1,378	1,371	
World total	123,138	130,541	139,988	140,157	148,702	154,252	160,273	165,904	

Source: Pulp & Paper International Fact & Price Book

PULP: contemplating the bottom of the cycle

Another journey on the roller-coaster

rate of exchange between the US dollar and other leading currencies. The prime reason in Europe why the price of European-produced pulp increased less and fell more than US imports during the current cycle was the value of the US dollar. There were several quarters where European buyers asked for higher prices solely because the dollar's value had fallen.

In the US, prices increased in a similar way from about \$480 per tonne for NBSK pulp delivered in the US at the end of 1986, up to the high of \$930 by

it is in this uncertain state that the question of when the market will bottom out is being asked by anxious paper makers as much as by pulp suppliers. The prospect of a great increase in the supply of market pulp has diminished, at least in the minds of most pulp buyers and sellers. This is partly because there have been some postponements of expansion plans as a result of the poor market and declines in overall company performance. However, there is still a lot of new tonnage on the way, particularly hardwood pulp from North America.

Notable among the postponements of capital investment was the decision in December 1990 by Sweden's Stora to postpone indefinitely its plan to raise bleached eucalyptus kraft pulp capacity at its Calm subsidiary in Portugal.

Even more significant is the likelihood that of three well-known plans for new pulp mills in Finland, only one, planned by Metsä-Botnia at the Rauma mill, is likely to go ahead in the short term, so effectively removing about 800,000 tonnes a year from the industry's new capacity list.

US production of market pulp will continue to grow and there will be more available for export. According to Mr W.C. McClelland, president of Union Camp, US market pulp consumption is projected to grow by less than 1m tonnes between 1990 and 1995, with only 60 per cent of supply from domestic sources. This modest growth, plus new capacity means more for export. Mr

McClelland expects US pulp exports to continue to grow at over 3 per cent annually, with western Europe still the largest market, followed by Japan.

The overall short-term view of this new capacity growth worldwide, particularly of the main kraft pulp types, must be that there will continue to be some degree of oversupply, in spite of the project postponements. On the other side, there is little prospect that the growth in demand for paper is going to improve significantly. Non-wood pulp mill stocks are at a level usually associated with

They hoped it marked the bottoming out of the cycle, rather than a little hiccup on a downward path

a weak market. Taking these into account, there seems little likelihood of significant price improvement in 1991.

However, prices have fallen less this year compared to the falling prices of 1990. From that point alone, the bottom appears to have been reached. If the dollar continues to strengthen, this may be an opportunity for European suppliers to increase prices in European currencies further - though it is equally likely that the US will offer more currency rebates to make up for a stronger dollar.

There's no reason to believe that the tradition of swift cycles in the pulp business has changed. But it looks as

though it will be well into 1992 before any steady improvement can be expected.

There are some other underlying trends. The period of acquisition and merger has reduced the number of independent market pulp producers. There are more pulp mills which have, within their own group, paper mills which want their pulp. This so-called tied tonnage is not true market pulp, and it can be a useful way of tying up production in times of trouble. Some companies, such as South African Sappi and Mondi, have invested in European paper producers partly because it secures a supply for their pulp.

The cost of entry to the pulp business is now higher than ever. There are stringent environmental restrictions and regulations to be met, particularly in the northern countries. A kraft market pulp mill has to be large to be viable and the capital cost is high.

However, there are still going to be newcomers, both in South America and Asia, especially Indonesia led by Indah Kiat based in Sumatra.

Another new development is the increasing demand for greater recycled fibre content of paper, particularly printing paper and paper used for stationery, which are prime users of market pulp. At present, the quality of NBSK, particularly its strength, make it an essential ingredient for many of these types of paper. But its proportion may diminish and new technology may allow greater use of recycled fibre.

Another new factor is the arrival of increasing quantities of a different market pulp, bleached chemi-thermomechanical pulp, thickly shorted to BCTMP. About 12 new BCTMP lines or mills will have started by 1992 in Canada. However, bleached kraft pulp remains the most common market pulp - about 75 per cent of all chemical market pulp.

The small size of BCTMP mills is also a reflection of another longer-lasting trend or wish: the continuing search for a new chemical process (environment friendly of course) to make sufficiently strong pulp on a smaller scale. At this lower capital cost, some paper mills could install such lines alongside their own mills, so partly replacing expensive market pulp. There are some candidate processes being promoted, but there has been no sign of a breakthrough.

Peter Sutton

Canadian pulp and paper shipments (000s of tonnes) by grade				
Grade	1989	1990 (p)	1991 (f)	% change 1990/91
Paper & paperboard	16,520	16,487	16,745	1.7
newsprint	6,607	9,075	9,235	1.8
printings & writing paper	3,204	3,588	3,675	2.4
other paper & board	3,709	3,804	3,835	0.8
Pulp exports	5,347	7,686	7,870	2.4
Total	24,867	24,153	24,815	1.8

(p) = preliminary (f) = forecast Source: Canadian Pulp and Paper Association

Canadian pulp and paper shipments (000s of tonnes) by destination				
Destination	1989	1990 (p)	1991 (f)	% change 1990/91
Canada	4,886	4,703	4,685	-0.6
US	12,993	13,131	13,235	0.8
Overseas	6,988	6,318	6,715	6.3
Total	24,867	24,153	24,615	1.9

(p) = preliminary (f) = forecast Source: Canadian Pulp and Paper Association

CANADA: an industry holds its breath

Painful period of transition

THE Canadian pulp and paper industry is not only in the depths of a severe cyclical recession but also struggling to overcome a steady erosion of its long-term competitiveness.

"No doubt there are many people in our industry holding their breath, waiting for the recession to end, waiting for things to be the same again," said Mr Arkadi Bykhovsky, president of Noranda Forest Sales, at a recent conference in Vancouver. "But it's different now. Things are changing."

Similarly, Abitibi-Price, one of the world's biggest newsprint producers, warned in its latest annual report that the industry is going through a painful period of transition which will transform it permanently.

Perhaps the most fundamental adjustment is that demand is shifting from the old, high-quality timber which is the hallmark of Canada's forests to cheaper, faster-growing woods from warmer climates which are equally suitable for lower-grade pulp and paper, as well as the mushrooming market in engineered wood products.

The upshot is that Canadian producers' competitiveness has steadily declined in the past decade. Their newsprint output of 9.1m tonnes in 1989 was 60 per cent of total North American production, down from 64 per cent in 1988.

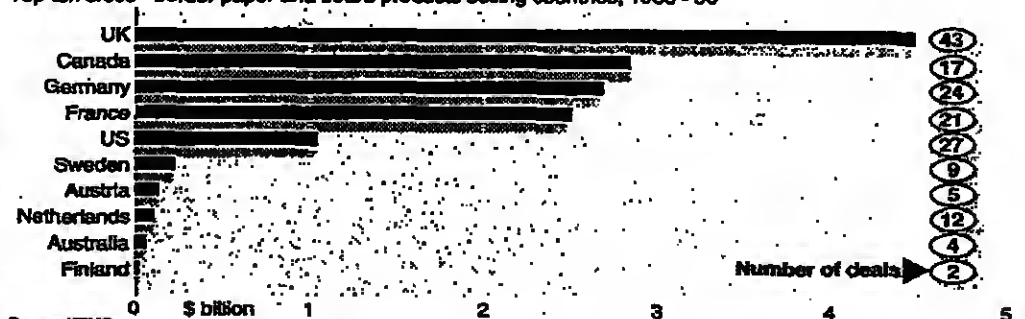
While Canada still accounts for more than a quarter of the world's market pulp capacity, operating rates of Canadian mills have slipped from 93 per cent in 1989 to 82 per cent last year. The Canadian Pulp and Paper Association expects a further drop to 78 per cent this year.

The heart of the Canadian companies' problem is that they have a higher cost structure than many of their foreign rivals. Their workforce is more heavily unionised. Many of their forests are less accessible and the technology of many pulp mills is outdated.

With demand for recycled newsprint rising, Canadian mills have the added disadvan-

Sellers

Top ten cross-border paper and board products selling countries, 1988-90



tage of being further away from the urban centres which provide raw material in the form of old newspapers.

According to Price Waterhouse, the cost of producing kraft wood pulp in eastern Canada is about one-third higher than in the southern US, where trees grow faster and wages are lower. Producers along the British Columbia coast, where access to forests is especially difficult, have an

lighted the hind in which the Canadian industry finds itself. With their high costs, the producers' top priority has been to try and hold up prices. In their efforts to do so, almost all have been forced to cut output by working shorter hours, or closing pulp mills and newsprint machines.

The battle to maintain prices has been a forlorn one in the face of the severe recession and ever-rising capacity from

The heart of the Canadian companies' problem is that they have a higher cost structure than many of their foreign rivals

even wider cost disadvantage. Tighter environmental regulations are imposing a heavy financial burden on the industry. Canadian pulp and paper mills have been slower than their US counterparts in installing secondary treatment facilities for their effluent. The British Columbia Council of Forest Industries estimates that mills in the province will spend just over \$1bn between 1989 and 1993 to virtually eliminate dioxins and bring down the organo-chlorine content to 2.5kg per metric tonne of pulp.

MacMillan Bloedel estimates that it would cost \$300m for its pulp mills to meet environmentalists' demand of an effluent discharge of 1.5 kg for each tonne of pulp produced. The recession has high-

projects begun during the good years of the late 1980s. Under pressure from their customers, Canadian producers were recently forced to rescind a 5 per cent rise in newsprint prices which was due to take effect last January.

Earnings have slumped. Abitibi-Price earned a meagre \$1.8m from newsprint operations last year, down from \$75.5m in 1989 and \$320m in 1988. Mr John Johnson, analyst at Richardson Greenshields in Toronto, forecasts losses this year at most of the big Canadian forestry companies, including Abitibi, MacMillan Bloedel, Canadian Pacific Forest Products and Fletcher Challenge Canada. Noranda Forest, Maclo's controlling shareholder, expects a

1991 loss similar to last year's \$95m.

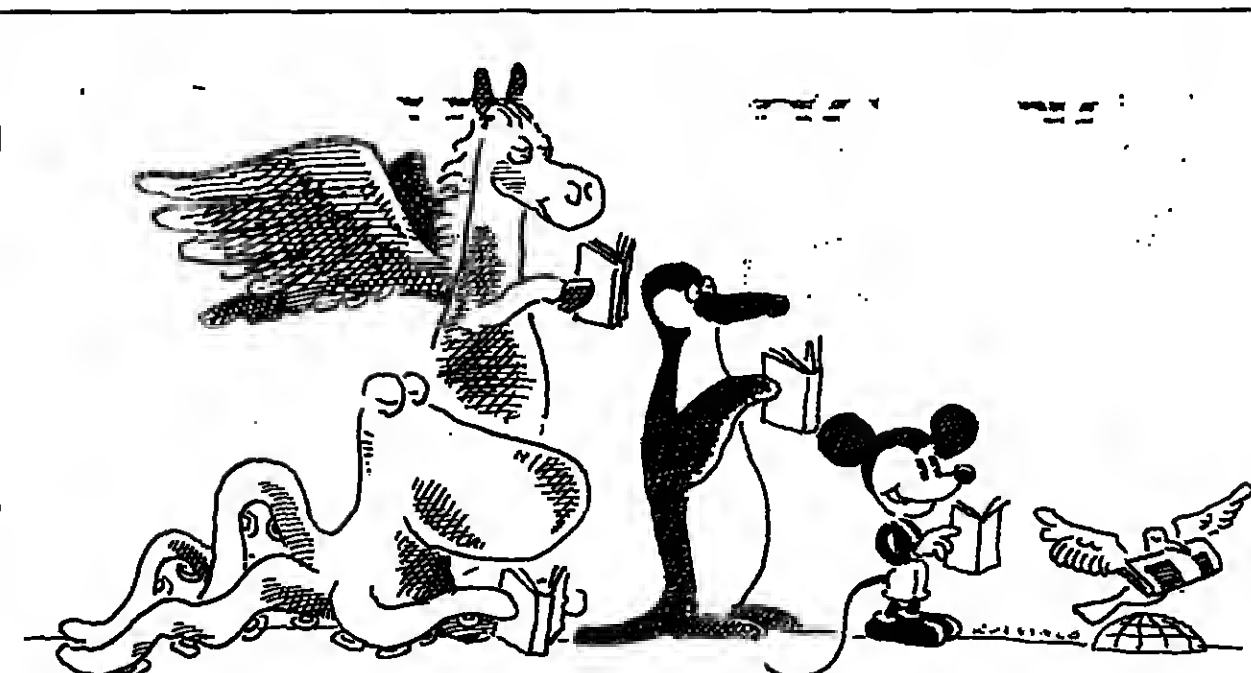
In the short-term, the industry is crossing fingers for an upturn in demand and a weakening of the persistently strong Canadian dollar.

It is cutting costs by seeking wage concessions from workers and closing down its least efficient operations. Forestry workers in British Columbia are asking for no increase in real wage rates when their contract expires later this year.

The companies are increasingly turning attention to their longer-term viability. Their strategies vary. MacMillan Bloedel, for example, is contemplating further acquisitions in the US. Fletcher Challenge Canada is seeking an equity partner for its large Crofton pulp and paper complex in British Columbia, and is putting some of its wood products operations up for sale.

Abitibi-Price sees the future in high-quality, high-margin products, including groundwood paper used for forms and directories. A recent federal government report on the state of the industry suggested that the future lies in a greater emphasis on value-added products and a move away from exploiting virgin forests towards more productive plantation forests.

Bernard Simon, Toronto



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■SWEDEN: remains dominant in Europe in spite of a drop in profits

Unruffled by the economic gloom

ALTHOUGH Swedish pulp and paper companies saw their profits drop on average by 35 per cent last year, the had economic news should not obscure recent developments that will strengthen the industry's dominant position in Europe.

Sweden's Social Democratic government has removed several long-term threats to the industry. The most significant was its decision to abandon plans to phase out nuclear power in the mid-1990s. As the country's biggest industrial user of electricity, forestry companies feared that their power costs could double if nuclear abolition went ahead.

The probability that the non-socialists will form the next government after September's elections should improve pros-

pects for the retention of nuclear stations beyond the 2010 deadline for a complete nuclear shutdown established by parliament a decade ago.

The proposed environmental tax on chlorine emissions threatened to increase the industry's production costs. But the government dropped the proposal after the industry successfully argued that it was undertaking a large-scale investment programme to reduce the use of chlorine during the production phase. The cleaner manufacturing processes being introduced will allow pulp and paper mills to meet the lower emission levels for chlorine mandated by the government as a substitute for the chlorine tax.

Sweden's expected applica-

tion for membership in the European Community removes fears that the industry would face potential barriers in the internal market after 1992. The country's previous refusal to join the EC was one factor behind the rush to acquire production facilities in Europe during the last few years.

The Swedish forestry sector is not only benefiting from these political changes. The economic outlook has brightened in the last few months. The gathering strength of the dollar has improved the competitive position of Swedish pulp producers since US producers had taken advantage of the weak dollar to make inroads into the European market.

Although Swedish forestry

companies have cautiously refrained from making forecasts for 1991, earnings could be better than analysts originally expected. One optimistic indication is that Stora, Europe's leading pulp and paper producer, managed to halt its decline in profits during the fourth quarter of 1990.

The market upturn is sorely needed as Sweden's leading forestry companies face strained balance sheets due to a series of acquisitions both at home and abroad that have restructured the industry in the past year.

Stora has emerged as the world's third largest forestry company with its DM4bn takeover of Feldmühle Nobel (FeNo) a year ago. The merger of the two companies, which

had co-operated for the last two decades in managing pulp and paper mills in Sweden, was significant for Stora besides increasing its size with sales of SKr52bn and a workforce of 69,700 persons.

The addition of FeNo, which has an annual paper production of 2.3bn metric tonnes and is Europe's largest maker of printing paper and cartons, transformed Stora into the world's biggest producer of newsprint and fine paper. The deal gave Stora a solid position in the manufacturing of lightweight coated magazine paper, a product area in which it was previously weak.

While the FeNo acquisition upgraded Stora's product line, it eliminated its dependence on the cyclical external market

Top 10 cross-border acquisitions 1988-1990			
Buyer	Target	\$m	Year
Stora (Sweden)	Feldmühle (Germany)	2,400	1990
Stone Container (US)	Cons-Bathurst (Canada)	2,169	1989
Svenska Cellulosa (Sweden)	Reedpack (UK)	1,832	1990
Pembroke (US)	DRG (UK)	1,098	1989
Wiggins Teape (UK)	Arjomari Prioux (France)	966	1990
Fletcher Challenge (NZ)	UK Paper (UK)	480	1989
Daiishowa Paper Manufacturing (Japan)	Reed Int. North American paper units (Canada)	479	1988
Svenska Cellulosa (Sweden)	Peaudouce (France)	350	1988
Feldmühle Nobel (Germany)	Papeterie Beghin-Corbehem (France)	335	1989
International Paper (US)	Aussedat Ray (France)	320	1989

Source: RPAW

for sales of its pulp. As Europe's biggest buyer of pulp, FeNo provides a captive market for Stora, which will become a net buyer of pulp. The resulting structural integration and balanced product mix is expected to provide co-ordination gains of SKr600m to SKr800m annually, according to Mr Bo Berggren, the Stora president.

Stora has gained through

previously lagged behind other domestic rivals, including SCA and MoDo, in establishing a presence on the continent. Prior to FeNo, Stora's main facilities in the EC were limited to its eucalyptus pulp mill in Portugal and a fine paper producer, De Forenede Papirfabrikker, in Denmark.

In spite of Sweden's intention to join the EC, Swedish forestry companies need manufacturing facilities in the centre of the continent in order to be close to consumers as com-

petition intensifies in the post-1992 internal market.

The acquisition of FeNo increased Stora's debt burden by SKr200m to SKr3.7bn. Stora is selling several subsidiaries to finance the purchase, including the tissue producer Finess to Duni, a Swedish paper group, as well as parts of the Tarkett flooring business. It is also seeking a German buyer for the engineering operations of FeNo.

John Burton

■SCA: lull in a hectic period of acquisitions

Expand or become a target

SVENSKA Cellulosa Aktiebolaget (SCA), one of Sweden's leading forestry companies, is pausing for breath after a hectic period of expansion that began just over three years ago. But many observers do not believe it will sit on the fence for very long.

The company's president and chief executive officer Mr Sverker Martin-Löf makes no secret of his wish to see SCA continue to strengthen its market position with a balanced high value product strategy centred on western Europe that has transformed the company from being essentially a producer of raw materials into a dynamic and specialist paper group. "You simply have to expand or you become a target for takeover yourself," he explains.

Financial analysts are concerned that in 1990 SCA bit off more than it could chew with its SKr5.84bn acquisition of Reedpack, the UK paper and packaging company and the purchase in December for SKr1.4bn of a 32 per cent voting stake and 16 per cent of the equity in MoDo, Sweden's third largest forestry group.

In 1990, SCA's pre-tax earnings fell - but opinion differs by how much. SCA argues they dropped by 22 per cent to SKr2.12bn, blaming overcapacity and price competition in the company's consumer business markets for the setback. Independent analysts, however, argue the profit decline was much greater.

James Capel argues SCA should not have included the SKr380m profit made from its divestments in its hygiene and packaging areas in its calculation. If the company had done that the fall would have been 34 per cent to SKr1.794bn.

Mr Martin-Löf will not reveal any proposals for SCA's financial performance this year until the annual shareholders meeting in June but it seems likely that the 1991 profit result, however calculated, will be down on last year. It is likely to be a more modest decline than in 1990 and presages a further rise in profitability next year according to both James Capel and Kleinwort Benson Securities in London.

It is true that SCA's finances weakened last year. High investment needs and the Reedpack and MoDo share acquisitions had to be met and so did the new LWC machine at its Örtvik plant in Sweden. Net debt increased by SKr1.1bn in 1990 which cut into the company's debt-equity ratio and interest cover.

Interest costs rose to SKr1.35bn, an increase of SKr500m while interest cover dropped to 2.6 per cent, com-

Growth of SCA since 1986 (\$K bn)					
	1986	1987	1988	1989	1990
Profits	1,399	2,050	2,603	2,712	2,127
Sales	15,217	15,679	20,850	24,853	31,122

pared to a 4 per cent company target. Mr Martin-Löf argues that SCA's financial position continues to be satisfactory.

Last year the company had a 42 per cent ratio of shareholders' equity to total assets which included forest and power surplus values compared with 55 per cent in 1989. Moreover, SCA has embarked on a divestiture policy to sell off parts of its acquired units that fall outside its core business areas. Last year the company made divestitures totalling SKr1.3bn while preliminary agreements that have been reached account for a further SKr2.2bn of which SKr500m will be obtained by the end of 1991.

What is impressive about SCA is the clear-sightedness of its strategy which in only a short period of time has transformed the company. "We have developed a balanced high

value core business and limited ourselves to growth inside the western European market," explains Mr Martin-Löf.

The company has concentrated its activities into what are administered as three distinctive highly refined product business areas - hygiene goods, packaging and graphic paper. The strategy has sought to establish economies of scale, to develop greater value added products and to spread the risks to avoid the consequences of the traditional cycles of the pulp and paper industry. Moreover, SCA has become much more consumer market than producer driven.

It was in October 1987 that SCA announced its intention to raise SKr1bn to acquire strategic companies in packaging and hygiene products through a new share issue. The first purchase came in 1988 when SCA's hygiene sector

Molnlycke acquired Peaudouce, the leading French disposable nappy producer for FR1.96bn, making the company Europe's largest producer of fluff-based hygiene products in nappies, as well as paper to deal with menstrual hygiene and adult incontinence.

In July of that year Italcarta, Italy's largest corrugated board and recycled paper products group was purchased for SKr500m by SCA and followed up only three months later with a SKr1bn majority shareholding in Laakirchen, an Austrian manufacturer of printing paper and hygiene products. In 1988 SCA spent SKr3.4bn to acquire foreign companies with a combined sales of nearly SKr7bn and 6,800 employees.

Last year, the purchase of Reedpack turned SCA into Europe's leading transport packaging company with a 42 per cent growth in its sales as a result to SKr7.798bn.

As a result, the packaging business area is roughly equal in annual sales to the hygiene product activities at about SKr1.2bn. However, the company's graphic paper production has a substantially lower turnover figure. Hence, the



Martin-Löf, left, with Peter Williams, Reedpack chief executive

potential importance of last December's acquisition of a large slice of MoDo's state-owned forest land in Sweden is not lost on Mr Martin-Löf. He is not interested in taking over MoDo in a grand merger. What he wants to do is to find ways of bringing together the graphic paper business areas of the two companies. If this does happen it would bring the third leg of SCA's core business up to balance with its other two.

He believes there will be moves for greater concentration in the structure of the European forestry industry during the 1990s and Sweden will not be excluded from that process. Whether this will mean the full integration of MoDo into SCA is unclear.

The company faces some real difficulties. In its hygiene division the diaper war with Procter and Gamble has hurt with a 14 per cent drop in operating profit while in packaging SCA's kraftliner production was hit badly by the weakening US dollar and lower prices although a good performance from test liner and corrugated board.

There was also a 37 per cent drop in the company's graphic paper profits - mainly due to heavy costs incurred in its Swedish operations with the expense of the new LWC project at Örtvik, lower pulp prices, stagnant newsprint prices and reduced capacity. Last year's profits dip and the uncertainties about 1991

cannot disguise SCA's success in its strategy of balance. The company has become increasingly diverse and selective over the past 10 years or so, reflecting the sophistication of an industry that has been transformed through changing consumer demand and technological breakthroughs.

Mr Martin-Löf is proud of SCA's increasing production of recycled fibre newsprint which accounts for about half the company's annual output, making SCA the second largest producer from waste paper in Europe. But it should not be forgotten that the company retains an estimated 1.8m hectares (4.6m acres) of productive forest land, mainly in northern Sweden with a sales figure of SKr3.9bn last year and an operating profit of SKr481m.

This does not mean that SCA will continue to be based in Sweden. Last year it moved the headquarters for its packaging business to Brussels. Mr Martin-Löf says he would like to move the company's headquarters away from Sundsvall in northern Sweden as soon as possible and he does not mean to Stockholm.

SCA is thinking and acting in a transnational way. Indeed, as SCA becomes even more sensitive to the changeability of its consumer markets, it will not be surprising if it does not say goodbye to Sweden at some point in the 1990's.

Robert Taylor

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WORLD PAPER AND PULP 4

■ DISTRIBUTION: groups widen their horizons

A relentless drive towards the end-users

AT one time the world's big paper companies were content to cluster their activities at the commodity end of the market. Located near the forest-rich regions in North America and Scandinavia such companies made lucrative, cyclical livings from manufacturing mainly commodity grade papers and selling pulp to specialist paper producers.

No more. In the past decade most of the big paper companies throughout the world have staged a relentless drive towards the end-users of their products becoming more vertically-integrated in the process. Both in terms of product range and geographic coverage these paper companies have substantially broadened their businesses and have begun to discover what the ultimate consumer thinks and wants.

Mr Bernt Lof, chief executive of MoDo, the Swedish paper group, says: "The people that will suffer are those who have not realised that the pulp and paper industry is no longer solely a production-oriented industry. It has to be a marketing industry."

One of the most active battlefields in this process has been Europe, which has been swept by a wave of acquisitions in recent years. Much of this consolidation has been conducted by the Europeans themselves, but several large companies from outside the European Community have moved into the region in attempts to diversify their regional exposure, flatten their industrial cycles, and build markets close to rich European consumers.

So, for example, in recent years Stora, the Swedish company which forms Europe's biggest paper group, has bought Föreläse Nobel of Germany. International Paper, the large US corporation, has bought Aussadot-Rey, of France, and acquired a majority stake in Zanders Feinpapier, of Germany.

Fletcher Challenge, the New Zealand conglomerate which owns paper operations in North and South America as well as Australia, has bought UK Paper, a fine paper com-

pany. SCA, another Swedish group, has strengthened its position in transport packaging through the acquisition of Reedpack, of the UK.

However, moving into new markets and countries is not without risk. Many companies are burdened by the debts they took on to finance their acquisition growth and in some cases management teams have been fully stretched by the complexities of working in different countries with varied cultures and working practices.

Consumer-related markets require very different skills and disciplines to those required in the commodity sector and some companies have received brutal lessons in the subtler arts of marketing from more experienced competitors. The fearsome competition that Molyneux, SCA's subsidiary, has faced in the dispenser market from Procter & Gamble, the US consumer products group, is just one example of the dangers of straying too far outside a company's area of expertise.

Yet one of the most intriguing industrial groupings to emerge from the recent round of restructuring has been the merger between Wiggins Teape Appleton, of the UK, and Arjomari-Prioux, of France, which was completed at the end of last year.

The combined company, to be named Wiggins Teape, has strong skills in manufacturing high value-added specialist papers but only has a limited investment in forestry and pulp operations. For this reason, the company decided to move further away from the commodity end of the market towards specialist sectors where it could focus its sales efficiently through a network of controlled paper merchants.

As Mr Stephen Walls, chief executive of the new company, explains: "When we looked at the strategic opportunities that we had to expand our business we decided to go down-stream to seek a closer relationship with our customers. If you want to expand your product range it is important to have control of that distribution."

The combined company runs Europe's largest paper mer-

chant with leading positions in the UK, French, Irish and Belgian markets and a strong presence in Spain, Italy, the Netherlands and Finland. This network sells over 1m tons of paper a year, of which 35 per cent comes from AWT's group companies.

Mr Walls believes that this distribution network gives the company great strength in terms of gaining intimate knowledge of the customer's needs and securing outlets for its products. This year, for example, AWT will have few difficulties in being able to sell products made at its Sopore mill in spite of severe over-capacity in its sector.

Two-thirds of western Europe's paper merchants are owned by paper makers but the overall figure conceals some distinct regional variations. For example, in France almost all paper sales are made through merchants owned by the big paper companies compared to 2 per cent in Germany.

The highly attractive German market may be difficult to consolidate because nearly all the big paper distributors are family-owned merchants but greater efforts will be made to prise the market open over the next few years.

The other main plank in AWT's strategy is to promote the use of branded products, such as its Conqueror range of business stationery, which can attract customer loyalty and command premium prices. But Mr Walls believes that "branding is something that is not particularly well understood or well used in the paper industry". Paper companies will spend much effort in the next few years in creating and developing branded products but these will crucially depend on good quality, broad product ranges, and consistent levels of service.

As Mr Walls says: "You have to support a brand and provide a sustained message over a considerable period and that applies whether you are selling chocolate bars or bits of paper."

John Thornhill

POPULAR myths about the paper industry grow like mushrooms on dead trees.

The public reads about the frightening rate of global deforestation and conjures up images of voracious paper companies hacking down tropical forests to produce mounds of newspapers and packaging materials that are then mindlessly discarded.

They learn that paper products constitute between 20 to 35 per cent of all the rubbish that is deposited in rapidly diminishing landfill sites or burnt in incinerators and blame the industry for creating the waste. Health scares about the harmful effects of chlorine bleaching of pulp and the spread of dioxins also inflame public passions. Political pressure mounts for more widespread recycling schemes and cleaner production processes and simplistic slogans such as "Save a tree - use PVC" abound.

The paper industry has reacted to this popular environmental onslaught like a rabbit transfixed by the headlights of an on-coming truck. It rails at public ignorance and cavils at its misconceptions, but as one consultant recently told a pulp and paper conference in Leningrad: "The industry is clearly losing the public relations race."

Yet in spite of its image, the pulp and paper industry has an environmental record of which it can be proud and can muster some convincing arguments to bolster its case.

For example, in reality, less than 1 per cent of world's pulp requirements come from tropical forests; the felling is mainly due to the need for fuelwood and an increase in arable land. The vast bulk of the world's pulp needs comes from managed forests which are grown and harvested like any other crop. The only big difference is the time-scale: it takes between 60 to 120 years for pines to mature depending on the climate.

Far from eroding the world's forest resources the industry



Eucalyptus is one of the leading sources of raw materials for quality paper

■ ENVIRONMENT: losing the green public relations race

An industry that feels misunderstood

has in many countries been increasing them. The Swedes and the Finns, for example, are growing more trees than before the demands of the well-informed environmental organisations which still find fault with many industry practices.

Part of the reason why these organisations pay such close attention to the paper industry is that they believe it could provide a fine ecological model which other industries could sensibly emulate.

Ms Renate Krossa, of Greenpeace, explains: "Since paper is recyclable, bio-degradable and made of a potentially renewable resource, the pulp and paper industry has the unique potential to develop sustainable production technologies."

To this end, Greenpeace calls for improved forestry practices that encourage bio-diversity of species, a reduction in the use of fillers, coatings and inks in production processes, and the maximum use of efficient recycling systems. It demands an overall reduction in paper consumption levels - particularly among Western countries - and the development of sustainable levels of paper usage.

"Our societies at the moment think in linear terms. We have to adopt circular

thinking," Ms Krossa says. The paper industry ignores such well-targeted criticisms at its peril.

The environmental organisations greatly affect consumer attitudes towards paper products with potentially enormous commercial repercussions.

Mr Richard Cockram, a consultant at NLK-Celpap, which takes a close interest in environmental issues, says: "For the first time a paper buyer in Germany can directly influence the environmental policies of pulp mills in Canada."

He points to the example of the German retailing group, Tengelmann, which responded to scares about dangerous levels of dioxins by changing the furnishes on all its toilet tissues.

This prompted a similar response from its retailing rivals which transformed the entire German market within three months.

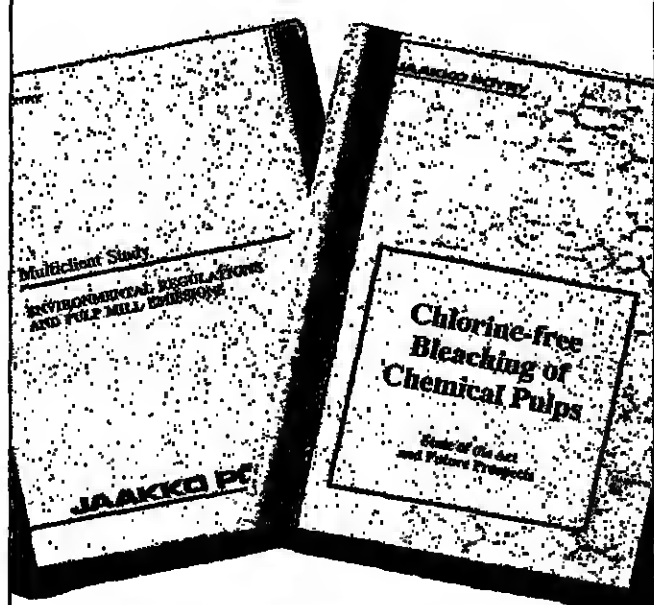
Mr Hugh Whalen, a vice-president of Canadian Pacific Forest Products, recently told a paper conference in London that President Bush had last year signed legislation proposing that additional forest lands should be preserved for the owls' habitat after they had been declared an endangered species.

Mr Whalen claimed that the value of this forest land equated to a \$55m for each pair of owls while at the same time the forest industry faced potential job losses of up to 100,000 over the next 10 years.

"Does this make sense to you?" Mr Whalen asks.

John Thornhill

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Prospects for the Polish Forest Products Industry

NLK-Celpap have just completed a strategic sectoral analysis of prospects for the Polish Forest Products Industry which was financed through the Swedish Agency for International and Technical Co-operation (SITC). A more detailed phase of this study is now planned. It will focus on specific enterprises in the sector and will be carried out in co-operation with a Financial Advisor to be nominated by the Polish Ministry of Ownership Changes which will deal with the privatisation of this industry sector. The study is the result of the Swedish Government having responded favourably to a request for help from the Polish Government.

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NLK-Celpap

■ FINLAND: companies are under pressure to restructure

Struck from all sides

FINNISH forest companies are being hard hit by a weak dollar and plunging pulp prices. Furthermore, The Central Association of Finnish Forest Industries (Caffi) believes that it may take between 1½ and 2 years before the situation improves.

Finland's forest companies are being struck from all sides. In the run up to the single market there is also strong pressure for Finnish forest companies to restructure and form stronger alliances between themselves. Observers got a preview of this last year when Metsä-Serla, the large forest group, took an aggressive bite of its rival United Paper Mills (UPM).

Considering the severe recession which the Finnish economy is in and the global slump hitting the paper industry, some analysts are sceptical that Finnish forest companies have the money to embark on large acquisitions. Metsä-Serla, for example, paid FM2.64bn to gain a 33.1 per cent stake within UPM.

The relaxing of Finland's strict foreign investment laws is going to become a big issue for the Finnish forest industry. Apart from a government committee presently drafting foreign investment legislation, the European Economic Area (EEA) will most likely compel Finland to do away with the free and restricted share system, which has helped to keep forest groups in friendly hands. Hostile takeovers by foreign forest companies have been impossible since foreigners cannot directly own restricted shares.

Mr Harri Piehl, president of Kymmene, the country's second largest forest group, who was recently elected as the new chief executive, believes that Finland will be obliged either through EEA or eventual EC membership to take a more lenient attitude towards foreign ownership.

"I believe that there is no reason why we should not allow an infusion of foreign capital in this [forest] industrial sector. This is providing that it is an interesting investment [to foreigners]," said Mr Piehl.

After exceptionally good years, Finnish forest groups have seen their profits fall. According to Caffi, the after-tax profits of Finland's publicly-quoted forest groups fell in 1990 by 64 per cent against the previous year.

The prospects for 1991 are gloomy. The operating margin of all Finnish forest groups with respect to turnover is expected to decline from 13 per



Kymi Kymmene pulp mill at Kuusankoski

Results of forest groups (post-tax FIMm)		
	1989	1990
Enso-Gutzeit	845	255
Kymmene	1,007	384
Metsä-Serla	470	-134
United Paper Mills*	636	554

Sources: Confederation of Finnish Forest Industries
*Does not include Naantali-Pulp mill division

cent in 1990 to under 10 per cent this year, according to Caffi.

The high level of indebtedness is another cause for concern. The net debt of all Finnish forest companies amounted to about 80 per cent of their turnover in 1990 and at Kymmene it was much higher, reaching about 90 per cent of its turnover.

The corresponding net debt figures in Sweden and the US amount to 35 per cent and 15-30 per cent of turnover respectively, according to Caffi. Interest payments for all Finnish companies amounted to 6-7 per cent of their turnover against 3-4 per cent in Sweden and 2-3 per cent in the US.

Mr Piehl pins some of his hopes on the new right-wing government made up of the centre, conservatives, Swedish People's party and Christian League. He believes that one way of restoring investment confidence in Finland is if the new Government can put together an effective long-term economic package, as well as commission a large 1,000MW nuclear plant in the next two years.

Attempting to keep wage increases to a 1.5-1.7 per cent this year, Mr Piehl said that another important measure taken by the forest industries to lower production costs has been through raw material purchases.

Normally, Finnish forest companies agree on a yearly

basis with the powerful Central Union of Agricultural Producers (Csuap) over wood prices. No such agreement was reached this year and forest companies are asking for a 15 per cent reduction in wood prices for the first half of 1991 and a further 15 per cent during this coming autumn.

Even if Caffi believes that stock wood prices are 30 per cent cheaper in central Europe than they are in Finland, national forest companies are also studying ways to buy greater amounts of wood from abroad.

The bulk of Kymmene's 1.6m cubic metres of wood came from the USSR. Another Finnish forest company, state-owned Enso-Gutzeit, which has formed a joint venture with the USSR to build a large pulp mill in eastern Finland, imported 2.2m cu m of wood from the Soviet Union last year.

According to Mr Piehl, the fall in trade with Moscow has been another factor which has hit the Finnish forest industry and forced some mills to either rationalise or shut down.

The forest industry sector, which employs between 70,000 and 75,000 people, has laid off some 6,500 people and another 6,500 are working a shortened week. Some analysts believe that by the end of this year the situation may get worse: a total of 10,000-15,000 people may end up losing their jobs with another 10,000-15,000 persons working shortened weeks.

Environmental issues do not have the same impact in Finland as in central Europe. "Finns accept the fact that trees can be used for industrial and recreational purposes. Contrary to central Europe, no one talks about killing a tree in Finland," says Mr Piehl.

Metsä-Serla is another company which has been especially active in the last two years. In 1989, it sold all of its paper tissue operations within the EC to Papierswerke Waldhof-Aschaffenburg (PWA) of West Germany. Five months later, in December, Metsä-Serla lost a battle with Fletcher Challenge of New Zealand to acquire full ownership of UK Paper, the leading fine paper group. At the beginning of 1990, Metsä-Serla surprised everyone by striking at UPM.

Mr Jarmo Simelius, a Metsä-Serla vice-president who heads the paper and paperboard division, believes that the future success of his company hinges on a more effective distribution system to its customers as well as on producing higher quality paper.

Taking a definite step in this direction, Metsä-Serla acquired last year full ownership of Alliance Paper, a large UK paper wholesaler, and last month it purchased Hektor, the UK's leading paperboard converting and merchandising company.

Considering Finland's distance from its main markets and the harsh reality of dwindling profits, Finnish forest companies may have no other choice but to take a more direct approach towards marketing and distribution. This service has been mostly supplied through Finnmap, a paper mill association which markets globally the paper of Finland's largest companies.

Enrique Tessieri

FINANCIAL TIMES
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INTERNATIONAL COMPANIES AND FINANCE

Dasa forecasts improved result

By Andrew Fisher in Frankfurt

DEUTSCHE Aerospace (Dasa), the Daimler-Benz subsidiary, expects to turn in a "considerably improved result" this year as a result of the dollar's recovery after a loss of DM135m (\$79m) last year caused by the US currency's previous weakness, Mr Manfred Bischoff, finance director, said.

The loss reflected provisions on contracts of Deutsche Airbus, part of Dasa and a member of the European Airbus consortium, to reflect the US currency's fall at the end of last year.

Turnover of Dasa totalled DM12.5bn and should rise to DM13bn in 1991.

Mr Jürgen Schrempf, the chief executive, said that Dasa had now completed the reorganisation necessitated by the addition of Messerschmitt-Bölkow-Blohm to its Dornier aircraft and MTU engine units. This had made it more market-oriented and able to engage in large aircraft and space projects.

Dasa expects to decide by late summer whether to go ahead with its proposed \$2.5bn

regional aircraft project together with Aerospaciale (France), Alenia (Italy), and Canadian, Spanish and Chinese companies. It will request repayable launch aid from the German government which could total DM800m.

The German company would take a 50 per cent share in the aircraft venture, with Alenia and Aerospaciale taking 25 per cent each. Dasa would then pass on stakes to the other partners, reducing its share below 40 per cent.

Mr Schrempf said even if

the Airbus consortium went ahead with a smaller version of an existing Airbus, this would still leave room for an aircraft to cover the market below 120 seats.

He said the defence technology share in Dasa's turnover should drop from last year's 48 per cent to 25 per cent by the year 2000 as Airbus production increased, other civil projects were developed, and defence budgets were reduced. The company has already said that 1,000 jobs would be lost on the defence side.

Earnings fall of 9.5% surprises Winterthur

By William Dufforce in Geneva

WINTERTHUR, Switzerland's highest non-life insurance group, has reported an unexpected decline of 9.5 per cent in 1990 consolidated net earnings. The company, however, will pay an unchanged dividend.

Group net profit amounted to Sfr236.6m (\$162m), compared with Sfr261.3m for the previous year. The 1990 figure was adjusted to bring it into line with the new reporting principles under which Winterthur is consolidating its larger minority holdings.

Gross premium income rose 4.1 per cent to Sfr12.48bn, representing a growth rate of 9.7 per cent in terms of local currencies. More than 54 per cent of direct income was generated outside Switzerland.

Mr Peter Späti, chairman and chief executive, had forecast higher 1990 earnings last November. Winterthur attributes the setback to narrowing margins in several countries, unfavourable currency fluctuations, and the poor state of financial markets last year.

Winterthur's net profit fell from Sfr4.64bn at the end of 1989 to Sfr3.75bn, in part because of the write-off of Sfr541.3m in goodwill on the acquisition of General Casualty, a Wisconsin-based US insurance company, for which Winterthur paid \$630m.

The parent company achieved a net profit of Sfr133.2m, down from Sfr138.6m in 1989. The board proposes to pay an unchanged dividend of Sfr68 per share and Sfr13.60 per participation certificate, giving a total payout of Sfr109.6m after last year's rights issue, compared with Sfr102.5m on the 1989 account.

Premium income in Winterthur Life, the life insurance subsidiary, amounted to Sfr3.67bn, with total assets in force rising by 8 per cent to Sfr117bn.

Investment income advanced by more than 12 per cent to Sfr1.25bn. Bonuses allocated to policies rose by 14 per cent to Sfr473m.

Whitbread advances 9.7% on strength of beer sales

By Philip Rawstone in London

WHITBREAD, the brewer and retailer, showed resilience in tough trading conditions with a 9.7 per cent increase in full-year pre-tax profits to £291.5m (\$503.2m) from £263.7m.

The results, which include pre-tax profits of £5.8m for the Whitbread Investment Company, were at the top end of market forecasts.

Shares gained 13p to close at 486p.

During the year "when virtually every month brought a further deterioration in customer confidence", according to Mr Peter Jarvis, chief executive, turnover rose to £2.06bn from £2.05bn - an increase of 14 per cent after adjusting for discontinued businesses.

Earnings per share grew 9.5 per cent to 47.25p from 43.15p and a final dividend of 12p lifts the total payout to 10 per cent to 18.3p from 14.8p.

Operating profits from Whitbread's brewing operations rose 15 per cent from £51.8m to

£71.1m on turnover 20 per cent higher at £987m from £746m. Beer volumes increased by 1.5 per cent in a market which declined by the same amount.

The Boddingtons brand led a 50 per cent growth in Whitbread's portfolio of cask-conditioned ales and Murphy's stout achieved sales of £75m in only its second year of distribution.

The group's managed retail estate, which now contributes half its profits, recorded a 10 per cent increase in turnover to £1.26bn from £1.14bn and pushed profits 7 per cent higher to £128.7m from £120.6m.

Whitbread Inns showed strong growth in drink and food sales; the Treshers wine and spirits chain improved margins, profits and market share; and TGI Friday's traded strongly. Pizza Hut maintained profits and pushed its market share above 50 per cent.

Turnover in Whitbread's leased and tenanted pubs grew 9 per cent to £273.5m from £251.9m and profits rose 4 per cent to £85.7m from £83.2m. Whitbread has now sold 445 pubs and a further 350 will follow this year as it moves to meet the changes resulting from the Monopolies and Mergers Commission inquiry.

An extraordinary charge of £42m is included in the accounts as the cost of meeting the changes. A similar provision of £45m was made last year. All the sales so far have exceeded book value. The accounts include a £38.3m profit on disposal of retail properties.

A new pub leasing programme is now under way with 450 completed and another 500 in negotiation.

"This total charge of £87m is a very high price to have to pay to meet the new regulations," Mr Jarvis said.

Lex, Page 18

Cost-cutting lifts Esselte to SKr83m

By John Burton in Stockholm

ESSELTE, the Swedish office products group, yesterday reported that profits after financial items rose by 26 per cent to SKr83m (\$13.5m) in the first quarter.

The improved result was due to lower financial costs.

Esselte last year sold its publishing and printing units as well as property holdings for a net gain of SKr2.9bn. It made the sales to reduce its debt burden.

Other property was sold in January for a profit of SKr161m. However, operating profit in the first quarter fell by 30 per cent to SKr158m as sales declined by 5 per cent to SKr4.08bn.

Demand has fallen in Esselte's main markets, including the US, the UK and the Nordic region, although sales have risen in Germany.

Despite the fall in sales and prospects that demand will remain weak, Esselte is confident that earnings for the year will exceed the target of SKr145m, due to lower interest payments and cuts in production costs. Esselte last year closed 17 facilities worldwide, reducing its workforce by 2,400.

Operating costs in the first quarter fell by 5 per cent to SKr3.7bn.

The upswing in earnings comes as Mr Rune Andersson, the chairman of the Swedish mining and industrial group Treleborg, becomes the Esselte chairman.

Spanish power row intensifies

By Tom Burns in Madrid

SEVILLANA, the large electricity producer which supplies Spain's fast-growing southern belt, yesterday took the unusual step of issuing a statement to deter the state-controlled utility Endesa from increasing its stake in the company.

The defence mounted by Savillana complicates the attempts by the government to restructure the domestic electricity sector with the creation of a large utility group around Endesa.

Foreign institutional investors hold up to 15 per cent of the equity in Savillana. The largest single shareholder is

the Banco Bilbao Vizcaya (BBV), with a 10.2 per cent stake. Savillana said its board considered that any attempt by Endesa to buy its equity without prior agreement would be considered a hostile move.

The board apparently fears that Endesa may be poised to repeat a controversial stock market raid on Savillana that it conducted in the summer of 1989, when it acquired nearly 10 per cent of the company.

In earlier comments, Savillana spokesmen had indicated that Endesa's designs on Savillana were to control the com-

pany and that this was unacceptable.

They were responding to remarks earlier in the week by Endesa's chairman, Mr Felicián Fuster, who said he would welcome closer links with the Sevilla-based company.

Mr Fuster unveiled an aggressive acquisition strategy when he masterminded the acquisition of the state-owned utility Elctrica de Viesgo two months ago.

However, Iberdrola and Hidrola, the two largest private utilities, subsequently stole a march on Endesa by joining forces earlier this month to form IEL Holdings.

Baer Holding holds payout, simplifies share structure

By William Dufforce

BAER HOLDING, the parent company of the Julius Baer private banking group of Zurich, yesterday announced an unchanged dividend and said it would convert its participation certificates into bearer shares.

Net earnings increased by 4.3 per cent to Sfr35.6m (\$24.4m) for the year ended March 31.

The board plans to pay a dividend of Sfr210 per bearer share. Sfr42 per registered share and Sfr3.40 per participation certificate.

Baer had assured shareholders of an unchanged dividend in March, when the group reported a 20 per cent slide in net earnings to

Sfr47.5m for the calendar year 1990.

To simplify its share structure, Baer Holding is offering one bearer share with a nominal value of Sfr500, carrying one vote, for 25 non-voting participation certificates of nominal value Sfr20 each.

This conversion will be covered by the issue of 13,936 new bearer shares which will take the share capital from Sfr52.3m to Sfr53.2m.

Control of the company will remain with the Baer family, which owns all the registered stock, apart from some 7 per cent which is held by Union Bank of Switzerland.

Helicopter group to issue new equity

HELIKOPTER Service, Norway's largest helicopter operator, is planning next week to float 8.7m shares to raise Nkr504m (\$75.2m) to fund its development, writes Paul Beitz.

About 80 per cent of the company's annual revenues of Nkr1.25bn comes from offshore oil operations.

The company is controlled by Mr Kjell Andenes and Mr Tor Andenes, who hold 88.2 per cent of the outstanding shares. After the offering, their interest is expected to fall to 31 to 32 per cent.

Half the 8.7m shares on offer are expected to be placed with institutions on the international market.

KHD confident of matching net

By Andrew Fisher

KLOCKNER-Humboldt-Deutz made a slow start in 1991, but earnings should match those of last year, when the German engineering company made its first net profit since 1985, Mr Karl-Josef Neukirchen, its chief executive, said yesterday.

The company reported a net profit of DM30m (\$17.5m) last year against a net loss of DM170m in 1989.

KHD, whose activities include manufacturing diesel engines and tractors and constructing industrial plant, was feeling the effects of economic weakness in foreign markets, he said.

Total turnover in the first four months of 1991 was only 1 per cent higher at DM1.2bn

compared with the same period last year, as a 22 per cent rise in the buoyant domestic market was largely offset by a 12 per cent fall in foreign sales.

New order inflow was down by 17 per cent to DM1.3bn as a result of a slowdown in the construction sector and in the European farm machinery sector, as well as delays in plant orders.

KHD's order backlog at the end of April was DM28m, 7 per cent down on the same period last year, but 9 per cent higher than at the start of this year.

Last year, the company doubled its operating profits to DM22m, a continued improvement from its weak perfor-

mance in 1987, when it made an operating loss of DM402m.

The company's earlier problems stemmed from its disastrous investment in Allis-Chalmers, the US farm equipment manufacturer. In 1985, KHD has since sold its stake, but not before the investment cost the company about DM1bn.

Mr Neukirchen came to KHD in 1987 to effect a recovery and will shortly move to Hoesch, the steel and engineering group.

He said work had already begun on a new DM600m diesel engine plant for KHD in Cologne. It will have an annual capacity of 150,000 engines a year when production starts in 1993.

BMW Rolls-Royce near deal on site

BMW Rolls-Royce, the recently-formed joint venture between the German car company and the UK aerospace group, is near final agreement on the site for a new engine plant in east Germany, with an initial investment of around DM200m (\$118m) planned,

writes Andrew Fisher.

The company said it hoped to complete the purchase of the site, south of Berlin in the east German state of Brandenburg, by July. Construction on the green field site could then start later this year, with some 500 jobs created when the first

phase of production starts in the mid-1990s.

BMW Rolls-Royce intends to produce a new family of civilian aircraft engines at the east German plant. Development of this range, aimed at the regional market, will cost around DM1bn by 1996.

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The Redemption Price and said accrued interest will be due and payable on the Redemption Date. Interest on the Debentures shall cease to accrue on and after the Redemption Date and all rights of the holders with respect to the Debentures will cease, except the right to receive the amounts due on the Redemption Date. Payment of the amounts due will be made only upon presentation and surrender of said Debentures with all interest coupons maturing subsequent to said date, by hand or by mail as follows:

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NORSKE SKOGINDUSTRIER A.S.
(Incorporated with limited liability in the Kingdom of Norway)

International Offering of
NOK 707,000,000

8 1/4% Subordinated Convertible Bonds 1991/2000

Issue Price: 100 per cent.

Enskilda Securities
Skandinaviska Enskilda Limited

CHRISTIANIA FONDAS AS

Kleinwort Benson Limited

BNP Capital Markets Limited **Credit Suisse First Boston Limited**

Deutsche Bank Capital Markets Limited **Paribas Capital Markets Limited**

May 1991

Deutsche Bank AG

Frankfurt am Main
(Incorporated in the Federal Republic of Germany with limited liability)

Notification of Dividend

The Ordinary General Meeting on May 23, 1991, has resolved to distribute the distributable profit of the financial year 1990 being DM 617,868,650 and has approved the payment of a dividend of **DM 14 per share of DM 50 par value.**

The dividend will be paid less 25% capital yield tax against submittal of Dividend Coupon No. 55 at one of the paying agents listed in the Federal Gazette (Bundesanzeiger) of the Federal Republic of Germany No. 94 dated May 24, 1991. In accordance with the English-German Double Taxation Agreement of November 26, 1984, as amended in the protocol of March 23, 1970, the German capital yield tax is reduced from 25% to 15% for shareholders resident in Great Britain. To claim this, shareholders must submit an application for refund until December 31, 1995 at the latest. This application is to be addressed to the Bundesamt fuer Finanzen, Friedhofstrasse 1, D-5300 Bonn 3.

In Great Britain payment will take place through the following banks:

Deutsche Bank AG, London Branch, 6, Bishopsgate, London EC2P 2AT, Midland Bank plc, Securities Services UK Department, Ground floor, Suffolk House, 5 Laurence Pountney Hill, London EC4R 0EU.

The dividend payment in Great Britain is made in Pound Sterling converted from Deutsche Mark at the rate prevailing on the day of submittal of the dividend coupon.

Frankfurt am Main, May 1991

Board of Managing Directors

PROVINCE DE QUEBEC
SCAN 50,000,000
12% BONDS DUE 1993

Notice is hereby given that in accordance with the Terms and Conditions of the Bonds, the Issuer has elected to redeem anticipatively all of the outstanding Bonds in the aggregate principal amount of \$CAN 50,000,000 on July 6, 1991 at a redemption price equal to 109% of the principal amount thereof.

The Bonds should be presented and surrendered for payment together with coupons due July 6, 1991 and followings attached.

On and after July 6, 1991 the Bonds will no longer be outstanding and interest thereon shall cease to accrue.

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE
ALSACIENNE DE BANQUE
15, AVENUE EMILE REUTER
LUXEMBOURG

NOTICE TO THE NOTEHOLDERS
SWEDBANK
Sparbankernas Bank
Yen 5,000,000,000
5 1/2% Bull Bonds due 1993

In accordance with the Terms and Conditions of the Bonds - "Redemption and Purchase - Redemption Amount", notice is hereby given that the Redemption Amount in respect of any Bond payable on May 24, 1991 has been fixed at 100% of the principal amount.

for and on behalf of the issuer
Banque Paribas Luxembourg
Societe Anonyme
Calculation Agent

NOTICE TO THE HOLDERS OF
Map Investment N.V.
(the "Issuer")
3% Participating Bonds
Due May 17, 1999 (the "Bonds")

The Issuer has declared and paid U.S. \$2,180,000.00 Participating Interest due and payable on May 17, 1991. The accumulated percentage rate is equal to 3% and the amount of Participating Interest payable U.S. \$310,000 principal amount of the Bonds is \$930.00.

U.S. Trust Company of California, N.A., as Trustee
May 16, 1991

FUTURES AND FOREIGN EXCHANGE
24 HOUR COVERAGE

CAL Futures Ltd
Windsor House
50 Victoria Street
London SW1H 0NW
Tel: 071-799 2233
Fax: 071-799 1521

Dollar bull or peak?
Daily Currency and Interest Rate Faxes
from Chart Analysts Limited
Contact Anne Whitby
Tel: 071-734 7174 Fax: 071-439 4966

Columbia First
Federal Savings & Loan Association
U.S. \$150,000,000
Collateralized Floating Rate Notes
due November 1996

For the interest period 23rd May, 1991 to 25th November, 1991 the Notes will carry a rate of interest of 6 1/4% per annum, with an interest amount of U.S. \$3,761.46 per U.S. \$100,000 Note.

Listed on the Luxembourg Stock Exchange

Bankers Trust Company, London **Agent Bank**

IG
TELEPHONE: 071-828 7233
FISSE 100
May 24/28/29/30 +12
Jun. 24/28/29/30 +12
5pm Prices. Change from previous 9pm close
HOW WELL DID YOU JUDGE THE MARKET?

CAL INVESTMENTS LIMITED
MEMBER OF THE SECURITIES AND FUTURES AUTHORITY LIMITED
INVESTMENT MANAGEMENT IN FOREIGN EXCHANGE AND FINANCIAL FUTURES
CALL PAUL GLEESON ON TEL: 071 799 2233 FAX: 071 799 1521

Residential Property Securities No. 1 PLC
£200,000,000
Mortgage Backed Floating Rate Notes 2018

The rate of interest for the three month period 22nd May, 1991 to 22nd August, 1991 has been fixed at 11.9125 per cent. per annum. Coupon No. 13 will therefore be payable on 22nd August, 1991 at £3,002.60 per coupon.

Aggregate interest charging balances of Mortgages redeemed during the previous interest period: £8,759,640.

Aggregate interest charging balances of Mortgages redeemed as at 22nd May, 1991: £163,067,240.

The aggregate principal amount of Notes outstanding as at 22nd May, 1991: £149,200,000.

S.G. Warburg & Co. Ltd.
Agent Bank

FINANCIAL TIMES FRIDAY MAY 24 1991
Prices 9.7%
per sales

FINANCIAL TIMES FRIDAY MAY 24 1991

21

PEOPLE SHOULDN'T HAVE TO CHOOSE BETWEEN
DYING OF THIRST AND DYING FROM CHOLERA.



World Problems

Over a million people die from cholera and typhoid every year, both diseases contracted by drinking infected water. But now ICI is working on an advanced



World Solutions

water filter so fine it will be able to trap the bacteria responsible. Which should help provide the developing world with more water that gives life instead of taking it.



World Class

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Honda Motor posts 65% decline

By Robert Thomson in Tokyo

Honda Motor, the Japanese car maker, yesterday reported a sharp fall in pre-tax profits in the final quarter as US sales proved sluggish, the domestic market turned soft, and selling expenses increased.

The group suffered a 65 per cent decline in pre-tax profit to ¥16.56bn (\$129.13m) in the quarter to the end of March. For the full year consolidated pre-tax profit was ¥132bn, down from ¥162.1bn, on sales of ¥4,301.5bn, an increase of 11.6 per cent. Sharply increased turnover of motorcycles in Asia compensated for the downturn in the US car market.

Sales in the final quarter rose by 3.8 per cent from a year ago to ¥1,142bn, with motorcycle-related revenue rising 36.9 per cent, car sales increasing by only 3.2 per cent, and other business revenue up 28.6 per cent.

After several years of surging sales, the Japanese market has turned down, with passenger car sales below year-earlier levels for nine consecutive months. However, Honda officials said yesterday they expected domestic sales to be stimulated later in the year, when several new models will be unveiled.

For the current year, sales

are expected to rise 7 per cent, although the company said tougher market conditions would lead to reductions in capital investment, which will fall by an estimated 13 per cent, while research spending may fall slightly and the intake of new Japanese staff next year will be cut.

Honda predicts that net profit for the year will be ¥77bn, slightly higher than last year's ¥76.2bn, although selling expenses may increase sharply as the company will be "competing in an intensely competitive automobile market".

Last year, motorcycle revenue rose 29.3 per cent and car

revenue rose 8.9 per cent, due mainly to "an improved model mix and a weaker yen against major European currencies".

The company reported marginal increases in car sales in North America and the domestic market, but a 36 per cent increase in the value of sales to Europe, which accounted for 10.7 per cent of total sales, up from 8.6 per cent in fiscal 1989.

Motorcycle sales fell in Japan, but rose sharply elsewhere. Europe accounted for 23.9 per cent of motorcycle sales, up from 23.2 per cent, while Japanese sales fell as a proportion from 40.6 per cent of the total to 30.7 per cent.

Electrical combines hit by rising costs

By Stefan Wagstyl in Tokyo

PROFITS at three of Japan's largest electrical combines were hit last year by the rising cost of labour and of product development and by declining prices of semiconductors and personal computers.

Hitachi, Toshiba and Mitsubishi Electric all posted increases in sales in the year to March, due to strong demand in Japan and overseas. But all three suffered falls in operating profits.

Toshiba's profits also fell at the pre-tax level, while Hitachi and Mitsubishi posted marginal increases.

The three groups forecast slight increases in sales for the current year. Toshiba and Hitachi predicted virtually unchanged profits, but Mitsubishi said pre-tax profits would fall 8 per cent.

Margins are likely to continue being squeezed by increases in costs and falling product prices. Competition is intense with all three leading groups, plus others, including Matsushita Electric Industrial, battling for sales across a wide range of products.

Toshiba said its decline in profits was due mainly to price cuts in semiconductors and intensified competition in personal computers.

On a consolidated basis, sales rose 1.9 per cent to ¥4,685bn (\$37.7bn) but pre-tax profits fell 4 per cent to ¥258.8bn. Net income was down 8 per cent at ¥120.8bn. At the parent company, which accounts for much of the operation inside Japan, pre-tax profits fell 15.1 per cent to ¥175.4bn.

For the current year, Toshiba forecasts a 6 per cent increase in consolidated sales to ¥4,980bn and a marginal increase in pre-tax profits to ¥268.0bn.

Hitachi reported a 9 per cent rise in consolidated sales to ¥7,737bn and a 8 per cent increase in pre-tax profits to ¥582.0bn.

Net profits were up 9 per cent, but operating profits, which include the group's considerable financial income, rose just 1 per cent. At the parent company, operating profits fell 14 per cent to ¥171.8bn. Pre-tax profits rose 2.7 per cent to ¥208.5bn.

Hitachi forecasts increases in consolidated sales and pre-tax profits this year to ¥8,100bn and ¥560bn respectively.

Mitsubishi posted increases of 11 per cent in consolidated sales to ¥3,316bn and 1 per cent in pre-tax profits to ¥118.2bn. Operating profits fell 8.3 per cent to ¥208.7bn and net profits rose 4 per cent to ¥79.7bn. The parent company saw pre-tax profits fall 0.7 per cent to ¥136.3bn.

Mitsubishi expects sales in the current year to rise 2.5 per cent to ¥3,400bn on a consolidated basis, but pre-tax profits to fall 8 per cent to ¥116.8bn.

It is smaller than its two rivals and so less able to maintain the pace in keeping down costs and continuing to invest across a wide product range.

The companies are pouring huge sums into research and development and new capital equipment. Hitachi said research and development rose 14 per cent to ¥491bn, or 6.3 per cent of sales. Capital spending increased 19 per cent to ¥547.7bn.

Mitsubishi Electric, a leading wire maker, reported a 34.7 per cent increase in parent company pre-tax profits to ¥38.4bn on an 11.6 per cent increase in sales to ¥732bn.

Capital investment by Japanese industry boosted sales, as did a successful diversification into car brake systems. Further increases in sales and profits are expected in the current year.

Top trading companies in Japan beat interest rise

By Neil Weinberg in Tokyo

JAPAN'S six leading trading companies managed to overcome a sharp rise in interest expenses to post mostly higher sales and pre-tax profits for the year to end-March.

The six also set aside a total of ¥74.3bn (\$580.46m) in loss reserves on ¥353.2bn in claims against Iraq. Mitsubishi, with the highest claims of ¥99bn, set aside the largest amount at ¥30.3bn.

The Ministry of International Trade and Industry (MITI) disclosed that all the leading trading houses, excluding Sumitomo, which had the second largest loss reserves and claims, have filed for a total of ¥10.5bn in related trade insurance.

C. Itoh, the top trader in sales, reported a 0.3 per cent rise in sales, despite declines of 30.3 per cent and 38.9 per cent in imports and exports respectively.

Sales were also dented by an accounting change last year under which traders book only the difference between selling and buying of gold bullion. Excluding gold transactions, sales rose 12.6 per cent. Pre-tax profits, meanwhile, climbed to a record ¥54.3bn.

C. Itoh expects sales to rise 2 per cent to ¥21,000bn and pre-tax profits 1.3 per cent to ¥5bn in the year to end-March 1992. Sumitomo Corp, the second largest trader, posted the

LEADING JAPANESE TRADING COMPANIES			
Company	Sales	Pre-tax profits	Net profits
C. Itoh	20,695 (+0.3)	54.3 (+0.9)	19.0 (+2.5)
Sanjoh	19,212 (+12.8)	77.2 (+10.3)	35.5 (+4.1)
Marubeni	19,015 (+4.2)	54.8 (+8.3)	17.1 (+1.8)
Mitsui	18,284 (+7.8)	68.0 (+1.8)	22.2 (+2.8)
Mitsubishi	17,421 (+4.8)	94.3 (+14.4)	40.0 (+4.8)
Nishio Iwai	13,443 (-11.3)	24.5 (-28.7)	9.8 (+3.5)

* Percent change year-on-year to end-March 1991. Percentages change in brackets.

highest pre-tax profits at ¥77.2bn, up 10.3 per cent. Company sales rose 12.8 per cent, with growth reported strong in all divisions. Particular rises included 28.1 per cent for chemicals and fuels.

Sumitomo expects sales to rise 5 per cent to ¥21,000bn and pre-tax profits 5.6 per cent to ¥92bn in the current fiscal year.

Marubeni posted record sales of ¥19,015bn, up 4.2 per cent on strong domestic demand and higher crude oil prices. Domestic transactions rose 12.3 per cent and overseas transactions 19.4 per cent.

Marubeni forecasts sales up 0.6 per cent to ¥19,000bn, while pre-tax profits will fall 8.3 per cent to ¥50bn in the year to end-March 1992.

Mitsui reported a rise of 7.6 per cent in sales to ¥19,212bn, led by a 13.5 per cent rise in international transactions. The company forecasts sales rising 4.2 per cent in the current fiscal year to ¥19,000bn and pre-tax profits 8.4 per cent to ¥70bn.

Mitsubishi posted a 14.4 per cent rise in pre-tax profits, to a record ¥94.3bn, as machinery and information related operations gained 11.5 per cent and 7.5 per cent respectively.

Mitsubishi expects sales in the year to end-March 1992 to rise 0.5 per cent to ¥17,500bn and pre-tax profits 5.6 per cent to ¥105bn.

Nishio Iwai posted the only declines in sales and pre-tax profits, which were down 11.3 per cent and 25.1 per cent respectively. Excluding gold transactions, company sales rose 2.7 per cent. Higher interest rates and a 46.5 per cent drop in exports and 23.1 per cent in imports were behind the declines.

Nishio Iwai forecast a further 11.5 per cent drop in sales to ¥12,500bn and 22 per cent in pre-tax profits to ¥20bn in the year to end-March 1992.

Higher premiums fail to lift insurers

By Neil Weinberg

JAPAN'S four leading property and casualty insurers posted lower profits at the pre-tax level, despite rises in premium revenues in the year to the end of March, as higher vehicle repair and natural disaster

payments took their toll. Tokio Fire and Marine, Japan's largest non-life insurer, posted a drop in after-tax profits for the second consecutive year.

Yasuda Fire and Marine,

Mitsui Marine and Fire Insurance and Sumitomo Marine and Fire Insurance also showed profit declines for the first time in eight years.

The rise in premium income among the industry leaders was supported by growth in vehicle underwriting, as domestic car sales remained relatively buoyant.

However, the cost of car repairs rose even more rapidly, due to the growing number of luxury vehicles on the roads and higher repair shop labour costs. Increasing commission payments to insurance agents

also put pressure on profits. The non-life insurers expect profits to rebound in the year to end-March 1992, in part on a 7.8 per cent average rise in vehicle insurance premiums, scheduled to take effect on July 1.

Tokio forecasts premium income will increase 11 per cent to ¥7,110bn (\$7,585bn) and pre-tax profits 5 per cent to ¥1,010bn. The other three companies released similar predictions.

KDD suffers first fall in annual sales for 33 years

By Neil Weinberg

KDD, Japan's largest international communications company, suffered its first sales decline in 33 years in the year to end-March as price cuts and increased competition among common carriers took their toll.

Pre-tax profits fell 11.9 per cent to ¥25.98bn (\$209m), marking their second consecutive decline, while operating profits were down 30.4 per cent to ¥16.96bn. Sales declined 7 per cent to ¥240.72bn.

KDD, which enjoyed an international telephone service

monopoly until 1985, saw revenue from its mainline international telephone service drop 10 per cent as two aggressive new competitors vied for market share.

The company is also investing aggressively in satellite and optical communications technologies and noted a sharp rise in fixed costs.

KDD expects sales to rise 5 per cent to ¥245bn for the current year despite cuts in overseas telephone charges on April 1. Pre-tax profits are expected to rise 4 per cent.

Pioneer Electronic sees drop in earnings this year

By Emilio Terazono in Tokyo

PIONEER Electronic, the Japanese leading audio maker, has forecast a decrease in non-consolidated, pre-tax profits to ¥31bn (\$23.02m) for the year to end-March 1992, the first fall in seven years.

The company's announcement is in line with market estimates that its earnings for the current year will be hit by the deteriorating Japanese audio visual market.

Pioneer yesterday announced non-consolidated results for the past year. Pre-tax profits rose 9.8 per cent to ¥34.8bn on a 10.6 per cent increase in sales to ¥367.5bn. Sluggish demand depressed sales of its audio division by 3 per cent to ¥122.2bn, but both video and car electronics divisions posted strong sales results.

The company's stock price has been volatile in Tokyo recently on earnings speculation and has been dubbed the "Pioneer stock" by Tokyo's financial community.

For the year to March 1991, strong sales in Europe helped Pioneer's consolidated pre-tax profits, which rose 12.8 per cent to ¥179.9bn. Strong sales of its laser disc single-along karaoke systems and compact disc players for cars helped overall sales, which rose 17.2 per cent to ¥599.6bn.

Audio sales rose 7.3 per cent to ¥191.9bn, video products increased by 26.5 per cent to ¥193.4bn and sales for car electronics products rose 19 per cent to ¥176.8bn. After-tax profit grew 16.5 per cent to ¥34.2bn.

For the current year, sales for the parent company are expected to rise 5.2 per cent to ¥179.9bn and after-tax profits to fall 18.8 per cent to ¥27.1bn.

Pioneer blamed the slower sales growth on weak domestic demand in audio products and car electronics products due to the weak vehicle market.

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Bajaj Auto slips 13.4% and cuts payout to Rs10

By David Housego in New Delhi

BAJAJ Auto, India's largest manufacturer of motor-scooters and three-wheeler vehicles, suffered a 13.4 per cent drop in net earnings for 1990-91. It signals the growing squeeze on corporate profits created by the sharp fall in industrial production.

Bajaj, which provides a yardstick for the performance of the Indian engineering industry, saw sales tumble in the second half as a result of rioting in parts of the country and a shortage of diesel fuel.

Net profits declined to Rs563m (\$27.81m) although turnover for the year rose by 14.5 per cent to Rs2,228m. The drop in sales in the second half forced the company to cut its dividend by 25-30 per cent at its Aurangabad and Pune plants.

Bajaj Auto announced it was cutting its dividend by 10 per cent to Rs10. It believes, however, it can boost sales over the coming year through increasing its market share.

Another sign of the impact of the recession on Indian industry was the decision by

Hindustan Computers (HCL), the country's largest computer manufacturer, to reduce its 4,200 workforce by 15 per cent.

The group, which has just concluded a joint venture agreement with Hewlett-Packard, has seen output and sales fall because of import curbs and higher taxes.

Most of the cuts in the workforce have been made in the computer and CAD/CAM division. The company described them as "normal restructuring".

Also indicative of what could be a growing trend, Majestic Auto, the motorcycle manufacturer, was declared technically bankrupt by the court for industrial and financial reconstruction, whose financial help it was seeking.

Majestic, which employs 1,200 people and makes mopeds, suffered three years of losses that absorbed its capital and reserves. The downturn in sales has postponed any recovery.

We are pleased to announce our appointment as

Depository Bank by

EURO TUNNEL

for their sponsored

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The Citadel 01-234-3288
Alan Cameron 01-234-3287

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This announcement appears as a matter of record only

CITIBANK

Yukong Limited
(the "Company")

(a company incorporated with limited liability in the Republic of Korea)

Notice
to the holders of those of the

U.S. \$20,000,000 3 per cent. Convertible Bonds due 2001
of the Company presently outstanding
(the "Bondholders" and the "Bonds" respectively)

constituted by a Trust Deed dated 15th July, 1985 as modified by a First Supplemental Trust Deed dated 24th July, 1990 and a Second Supplemental Trust Deed dated 22nd May, 1991 (all together the "Trust Deeds") all made between the Company and Bankers Trust Company Limited (the "Trustee") as Trustee for the Bondholders.

NOTICE IS HEREBY GIVEN to the Bondholders that:

- under Condition 7(1) of the Bonds, Bondholders have rights (the "Bondholders' 1991 Put Rights"), subject as therein provided, by completing, signing and depositing at the specified place for Paying Agent during its normal business hours not less than 30 nor more than 45 days prior to 15th July, 1991 notices of redemption in the form (for the time being current) obtainable from any Paying Agent, to require the Company to redeem all or some only of the Bonds held by them at the date at 117 per cent. of their principal amount together with accrued interest;
- in order to provide Bondholders with greater flexibility as regards their holdings of Bonds the Company has requested the Trustee to concur with it in modifying the Trust Deeds and Condition 7(1) of the Bonds so as, subject to the condition described in (v) below, (a) to provide additional rights (the "Bondholders' 1992 Put Rights") identical in all respects to the Bondholders' 1991 Put Rights except for the relative redemption date to be 31st December, 1992 and the relative redemption amount to be 122 per cent. of the principal amount of the Bonds (in order to provide Bondholders who acquired their Bonds at par on 15th July, 1986 with the same yield to put as that with which they are provided by the Bondholders' 1991 Put Rights) and (b) to permit notices of redemption by Bondholders exercising any such rights to be revoked with the consent of the Company;
- at the request of the Trustee, the Company has agreed, subject to the condition described in (v) below, not to give notice exercising any optional redemption rights which it may have under Condition 7(1) of the Bonds until after 31st December, 1992, and the effect of this being that, in the light of such agreement, such modifications are in the interests of the Bondholders as a whole, has concurred with the Company in making the proposed modifications;
- such modifications, which are also subject to the condition described in (v) below, are contained in the Second Supplemental Trust Deed dated 22nd May, 1991 made between the Company and the Trustee;
- such modifications and the Company's agreement referred to in (iii) above are conditional and will become effective only upon the obtaining of the necessary Korean governmental and regulatory consents. The Company has covenanted in the Second Supplemental Trust Deed to use its best endeavours promptly to obtain such consents and further notice will be given to the Bondholders by the Company as soon as practicable after such consents have been obtained;
- accordingly, subject only to the obtaining of the consents referred to in (v) above, in addition to the Bondholders' 1991 Put Rights (which are unaffected by the modifications and remain exercisable) Bondholders will have further rights to call for redemption of their Bonds on 31st December, 1992 at 122 per cent. of their principal amount together with accrued interest by exercising the Bondholders' 1992 Put Rights pursuant to Condition 7(1) (mutatis mutandis in the same manner as the Bondholders' 1991 Put Rights); and
- copies of (a) the Trust Deeds and (b) a letter dated 20th May, 1991 from the Company to the Trustee containing the agreement referred to in (iii) above are available for inspection until 31st December, 1992 by Bondholders during normal business hours at the specified offices of the Paying Agents listed below.

PRINCIPAL PAYING AGENT
Bankers Trust Company, 1 Appold Street, Broadgate, London EC2A 2HE.

OTHER PAYING AGENTS
Swiss Bank Corporation, Aeschengraben 1, CH-4002 Basel.
Banque Internationale à Luxembourg S.A., 69 Route d'Esch, L-1470 Luxembourg.
Banque Indosuez Belge S.A., rue des Colonies 40, B-1000 Brussels.
Bankers Trust Company, 2601-2606 Shell Tower, 50 Raffles Place, Singapore 0104.

This notice is given for information only and does not constitute any recommendation by the Company or the Trustee as to whether any of the Bondholders' Put Rights or any conversion rights should or should not be exercised. Bondholders who are in any doubt as to what (if any) action they should take should consult their professional advisers.

This notice is given by Yukong Limited.

Dated 24th May, 1991

FT/ABD INTERNATIONAL BOND SERVICE			
Listed are the latest international bonds for which there is an adequate secondary market.			
Latest prices at 6:10 pm on May 23			
U.S. DOLLAR STRAIGHTS			
Issue	Face	Price	Yield
ABN AMRO 1991	100	101.1	8.75
ABN AMRO 1992	100	101.1	8.75
ABN AMRO 1993	100	101.1	8.75
ABN AMRO 1994	100	101.1	8.75
ABN AMRO 1995	100	101.1	8.75
ABN AMRO 1996	100	101.1	8.75
ABN AMRO 1997	100	101.1	8.75
ABN AMRO 1998	100	101.1	8.75
ABN AMRO 1999	100	101.1	8.75
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ABN AMRO 2019	100	101.1	8.75
ABN AMRO 2020	100	101.1	8.75
ABN AMRO 2021	100	101.1	8.75
ABN AMRO 2022	100	101.1	8.75
ABN AMRO 2023	100	101.1	8.75
ABN AMRO 2024	100	101.1	8.75
ABN AMRO 2025	100	101.1	8.75
ABN AMRO 2026	100	101.1	8.75
ABN AMRO 2027	100	101.1	8.75
ABN AMRO 2028	100	101.1	8.75
ABN AMRO 2029	100	101.1	8.75
ABN AMRO 2030	100	101.1	8.75
ABN AMRO 2031	100	101.1	8.75
ABN AMRO 2032	100	101.1	8.75
ABN AMRO 2033	100	101.1	8.75
ABN AMRO 2034	100	101.1	8.75
ABN AMRO 2035	100	101.1	8.75
ABN AMRO 2036	100	101.1	8.75
ABN AMRO 2037	100	101.1	8.75
ABN AMRO 2038	100	101.1	8.75
ABN AMRO 2039	100	101.1	8.75
ABN AMRO 2040	100	101.1	8.75
ABN AMRO 2041	100	101.1	8.75
ABN AMRO 2042	100	101.1	8.75
ABN AMRO 2043	100	101.1	8.75
ABN AMRO 2044	100	101.1	8.75
ABN AMRO 2045	100	101.1	8.75
ABN AMRO 2046	100	101.1	8.75
ABN AMRO 2047	100	101.1	8.75
ABN AMRO 2048	100	101.1	8.75
ABN AMRO 2049	100	101.1	8

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Business outlook at Intel 'excellent'

By Louise Kehoe in San Francisco

INTEL, the primary supplier of micro-processors and related semiconductor devices to the personal computer industry, said its business outlook was "excellent", despite stagnant unit sales in the personal computer market.

Intel said its second-quarter earnings were likely to top analysts' projections, which average 94 cents per share.

Mr Craig Barrett, Intel executive vice-president, told shareholders at the annual meeting that Intel expects "double digit percentage revenue growth" in the current second quarter, over the first quarter's record \$1.13bn.

Intel's revenue growth reflects its increasingly dominant role in the micro-processor market. Intel has been a significant beneficiary of the trend towards higher performance personal computers, powered by 32-bit micro-processor chips.

In past generations of personal computers, Intel competed with several "second source" suppliers of its 16-bit micro-processors, including Advanced Micro Devices. Intel has, however, refused to license other merchant chip makers to make its 32-bit micro-processors, thus gaining a virtual monopoly on the market.

AMD, which says that it aims to "break Intel's micro-processor monopoly" yesterday also issued a bullish forecast. Mr W. J. Sanders III, AMD chairman, said he expected the company to return to double digit pre-tax profit margins no later than the fourth quarter.

Mr Sanders said the company's sales of its recently introduced AMD 386 micro-processor, which is compatible with the Intel 386, were exceeding expectations. He also hinted that AMD is developing its own version of Intel's more advanced 486 micro-processor.

But Intel does not expect AMD's 386 micro-processor to have a significant impact upon its sales. Demand for Intel's micro-processors has been boosted by recent personal computer price reductions, the company said.

IBM selects McKinney to spearhead changes

By Alan Cane in London and Louise Kehoe in San Mateo

INTERNATIONAL Business Machines, the world's largest computer manufacturer, is taking increasingly profound steps to combat the deep structural changes in the worldwide computer industry which are badly damaging sales and profits.

Mr David McKinney, its top executive in Europe, has been recalled to IBM's Armonk, New York, headquarters to take up a special assignment which effectively gives him a lot of responsibility for determining the shape of the IBM of the future.

Reporting directly to Mr John Akers, IBM chairman, Mr McKinney will take responsibility for overseeing changes in the way IBM is organised, both internally and in its relations with other companies. He will focus on improving IBM's efficiency and reducing bureaucracy.

Over the past three years IBM has put in place plans to reduce headcount by almost 50,000, including the elimination of 8,000 managerial jobs.



David McKinney, recalled to company headquarters

It has strengthened its product lines and set up partnerships and alliances with thousands of smaller companies in the computer business.

Despite these changes, its first-quarter figures showed a loss and Mr Akers has been increasingly pessimistic about

the immediate future.

Mr McKinney's new assignment is seen as a move to match the company's profile to the new market conditions resulting from improvements in technology and shifts to commodity products and services.

Mr McKinney was yesterday unavailable for comment. It is understood he will also take responsibility for the company's communications, information systems and environmental staffs.

Mr Renato Rivero, formerly European director general operations, takes Mr McKinney's place as president of IBM World Trade and president director general of IBM Europe.

He was appointed director general, Europe, working in tandem with Mr McKinney, in January this year, in a management shuffle which indicated IBM's satisfaction with its Italian operations, often seen as a model of how IBM should trade in Europe.

Canada Packers triples earnings

By Bernard Simon in Toronto

CANADA PACKERS, the Toronto-based food processor controlled by Hillsdown Holdings of Britain, tripled its first-quarter earnings, but cautioned that a less spectacular increase was likely for the year as a whole.

The company, shortly to be renamed Maple Leaf Foods, said income for the first quarter was \$310m (US\$4.77m), or 15 cents a share, against \$103m, or 5 cents, a year earlier.

The present Canada Packers was created last year from a merger of the original Canada Packers and Maple Leaf Mills, and the 1990 figures are a pro forma representation of their combined performance.

The jump in first-quarter earnings was largely due to costs stemming from last year's closure of an abattoir in Burlington, Ontario.

Operating income rose more modestly to C\$21.8m from C\$19.3m. The closure of the Burlington plant also contributed to a 16 per cent fall in sales to C\$806.4m. The sale of Canada Packers' dairy and peanut butter businesses has also shrunk revenues.

Mr David Newton, chief executive, told the company's improved balance sheet allowed it to consider sizeable acquisitions without undermining its debt-to-equity ratio.

GTE offshoot to axe 4,900 jobs

GTE Telephone Operations, a unit of GTE of the US, is to cut its workforce by about 4,900 over the next four years as a result of a recent merger with the telecoms group Centel, Reuter reports.

The GTE offshoot, based in Irving, Texas, has about 115,000 employees, including Centel workers.

"The reductions will be accomplished mainly through normal attrition and early retirement plans," said Mr Robert Brand, director of media relations of GTE Telephone Operations.

French bonds fall again as franc continues to wobble

By Stephen Fidler in London and Patrick Harverson in New York

FRENCH government bonds fell again yesterday amid fears that the government may have lost its best opportunity to cut interest rates and worries among some international investors about the new French government.

Bond prices were down by as much as a 1/2-point. Some investors believe that a weak franc may preclude an interest rate cut to follow that by Spain earlier in the week. Meanwhile, international holders of bonds - although perhaps dominated by trading accounts - continue to sell bonds amid concerns about the economic policy of Mrs Edith Cresson, the new prime minister.

The Finance Ministry, however, said that the previous day's rumours about the introduction of a possible withholding tax were groundless.

This weakness opened up a yield differential of about 64 basis points in the 10-year maturities against the German

GOVERNMENT BONDS

market. This compared with 54 on Wednesday and as little as 44 about two weeks ago.

The German market was itself dormant at the long end, with most bond market activity concentrated in the four-year area. Here, the Bundesbank sold DM4.55bn of paper, newly-framed to attract international investors, keeping DM1.55bn for its own account at an average yield of 8.67 per cent. The sale was viewed as a success.

Otherwise, interest was focused at the short end of the market. Because of technical factors associated with the end of the bank reserve period at

BENCHMARK GOVERNMENT BONDS									
	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago		
UK GILTS	13 500	08/92	103.25	+0.32	10.33	10.50	10.63		
	9 000	03/90	92.30	+0.12	10.23	10.32	10.14		
	9 000	10/98	91.18	-0.12	10.03	10.00	9.85		
US TREASURY	8 000	05/91	99.18	+0.22	8.06	8.11	8.12		
	8 125	05/21	98.12	+0.23	8.27	8.32	8.26		
JAPAN	No 119 4 800	6/99	88.484	+0.048	7.03	7.05	7.09		
	No 129 6 400	03/00	98.7465	+0.083	6.63	6.62	6.71		
GERMANY	9 000	01/01	104.0500	-0.070	8.35	8.42	8.39		
FRANCE	BTAN 9 000	02/96	98.9355	-0.234	8.99	8.93	8.95		
	OAT 9 500	01/01	103.0800	-0.560	8.99	8.85	8.88		
CANADA	9 750	06/01	100.8500	-0.400	9.22	9.23	9.68		
NETHERLANDS	8 500	03/01	99.3400	+0.030	8.59	8.63	8.58		
AUSTRALIA	13 000	07/00	114.0554	-0.825	10.56	10.59	11.00		
BELGIUM	10 000	08/00	104.8500	-0.150	9.18	8.97	8.94		

the month end and market holidays, call money rate dropped as low as 7.3 per cent, way below the Bundesbank's targets.

■ THE UK government bond market had a dull day, but there were some hopes that it could be more exciting today. Money market rates are now discounting a 1/2 percentage point cut in interest rates by the Bank of England this morning.

Rumours also emerged that the Bank might go for a 1 percentage point cut and decide at the same time that it would move sterling into the narrow band of the European exchange rate mechanism.

There were also expectations that the Bank might announce in the afternoon a new tap stock for sale in late June. Although earlier market expectations were for a sale of medium-dated stock, now there are some expectations of a very long-dated stock, perhaps of 25 to 30 years. This may have

weighed on the long end of the market, which was up only 1/2 point yesterday, while short-dated stocks managed around 1/2 point.

■ A MIXED bag of economic statistics left US Treasury prices firmer at the short end but weaker at the long end yesterday morning.

At midday, the benchmark 30-year government bond was down 1/2 at 98.5, to yield 8.27 per cent. The two-year note, however, was up 1/2 at 100, yielding 6.733 per cent. The most important set of economic data released yesterday was the durable goods orders for April, which were up 2.9 per cent compared with a year earlier. This would normally have been bad news for the market, and did lead to an early sell-off of bonds, but prices at the short end perked up as dealers discovered that non-defence capital goods orders - regarded as a useful leading indicator - were down 10.3 per cent on the month.

Insurers form European mutual alliance

INSURANCE companies from the Netherlands, Sweden and Denmark have announced what they claim is Europe's first three-way international alliance involving mutual ownership across national frontiers, writes Hilary Barnes in Copenhagen.

The companies, each the third-largest insurer in their markets, are the Dutch mutual AVCB, Sweden's mutual Wasa and Denmark's Topdanmark, which de-mutualised a few years ago. They had total income last year of about DKr30bn and equity capital of DKr20bn. They will set up a jointly-owned holding company

as the base for the expansion of international business. The holding company will in turn have substantial shareholdings in each of the three alliance partners. The three see the alliance as the best way for medium-sized insurance groups to develop business internationally.

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Storehouse halved to £6m and no relief in sight

By John Thornhill

STOREHOUSE, the retailing conglomerate which owns B&S and Habitat, reported a severe drop in annual profits as the effects of its restructuring programme and the recession took their toll.

Moreover, Mr Michael Julian, chief executive, warned that the retailing climate showed little sign of improvement in the first half of the current year.

"It is very rough out there. We are swapping blows for blow with our competitors," he said. Taxable profits halved from £12.8m to £6.2m in the year to March 30. However, these figures were depressed by an exceptional item of £14.8m (£12.8m) relating to the extensive store rationalisation programme and associated redundancy costs.

Turnover dropped from £1.31bn to £1.21bn as sales weakened markedly in the second half.

After extraordinary write-downs of £11.2m (£7.4m) result-

ing from the disposal of several businesses, Storehouse incurred a net deficit of £7.1m (£1.1m profit) for the year. B&S saw a higher rent bill reduce its contribution from £27.4m to £21.6m, although sales edged ahead marginally to £817.7m.

Habitat was substantially shaken up and its head office was reduced from 350 people to 120. Even so, the chain lost £11.9m (£8.9m) although most of the losses occurred in the first half.

The speciality retailing division recorded a mixed performance but operating profits fell from £18.7m to £9.5m. Earnings per share, excluding exceptional items, fell to 3.7p (5.1p). The total dividend was maintained at 5p - after a final of 2.5p - reflecting the strong balance sheet.

COMMENT
The Storehouse story sounds simple. After some fairly brutal - but badly needed -

restructuring of its operations, the company is now clearly focused on five businesses in which it fully prepared to invest. The accountants have seemingly done their stuff; it is now up to the retailers to sell themselves back into prosperity. But Storehouse's troubled legacy and the current terrible trading conditions suggest the company still has a very long way to run.

The end of the recession is nowhere to be seen, the cost pressures in the business are about to escalate and the competition from the likes of Marks and Spencer will only intensify. Storehouse's merits as a recovery play are wearing rather thin considering there is no recovery in sight.

This year pre-tax profits may amount to £15m putting the company on a largely irrelevant prospective multiple of 33. The shares are to some extent underpinned by the dividend yield and asset backing but nevertheless look set to disappoint in the short-run.

Bankers involved in the talks said it was possible that the restructuring could be tied up by the deadline. However, they noted that the group had missed other deadlines, notably when the convertible bond was issued last November, at the time a temporary refinancing was agreed with the group's 60 or so banks.

Bankers said talks so far had gone well, although there was still a wide gap between the business plan. Brent Walker had submitted on Tuesday and that of the bankers. Leading lenders remained optimistic that the group's survival could be ensured.

Holders of £34.5m worth of the bonds agreed to wait for their interest, while investors in the remaining bonds were paid their interest yesterday, costing about £450,000.

The statement was issued after the stock market closed with Brent Walker shares unchanged at 28p and the bonds quoted at 53p cent of their par value. Yesterday's interest payment on the bonds, which should pay 12p each year, was the first since the takeover.

Although the bonds were offered to all Brent Walker shareholders, only 254 took them up - investing £510,000. Mr George Walker, chief executive of the public, betting, and gaming group, and his family bought £25.5m worth of the issue. He also helped to line up other buyers.

These included Jefferson Smith, the London-based pay and pension group, and its chairman Mr Michael Smith who together took £25m.

Svenska International, one of the leading lenders to Brent Walker and a member of the clearing committee of Brent Walker's banks, took £16m.

Brent Walker aims for June target

By Maggie Urry

BRENT WALKER, the leisure group negotiating a refinancing with its banks, has effectively set itself a deadline of June 6 to agree proposals for a restructuring of its balance sheet.

It announced that holders of 93 per cent by value of its £101.5m convertible bond had agreed to the postponement of the interest payment due yesterday until June 6 "to provide the company with an opportunity to determine the precise terms of the restructuring to be put to bondholders."

In order to keep terms to the bondholders the group will have had to finalise the restructuring. This is intended to match the firm's finances to its longer term trading position, and is expected to involve asset disposals. Currently the company's operating profits do not cover the interest payable on its £1.5bn of debt.

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Creditors hope to sight a phoenix

Richard Waters on criticisms facing Polly Peck's administrators

ALEXANDRA PALACE, the Victorian pleasure dome that dominates much of the north London skyline, is no stranger to financial disaster. A commercial white elephant since the day it was built, its fire-damaged bulk has just cost £51m to reconstruct - much of it financed by debt. What better meeting place for creditors of Polly Peck International, who will gather today to hear if (and when) they can hope to recover the more than £1bn owed by the group?

Ally Fally is likely to witness some fierce debate. Many creditors and shareholders of Polly Peck, the fresh fruit and electronics group that went into administration last autumn, are unhappy with the way the company has been handled so far and are likely to make their views felt at what is the first full-scale meeting to have been called.

The complaints fall into two camps. First, some creditors are impatient at the thought of waiting years to get any money back, and question why Polly Peck's assets cannot be realised sooner. Second, many feel that the administrators have been too slow to get the company's affairs in order, and that their report to creditors two weeks ago contained little new information about the group.

Mr Michael Jordan, the Cork City senior partner who has led the administration, is forthright about the first complaint. "The business community doesn't appreciate what rehabilitation is all about," he said. "They all think administration is just another form of liquidation, but it isn't."

The administrators' job is to keep the business afloat and develop its various businesses, rather than liquidate it as soon as possible, he said. Their report has already spelled out the possible disastrous consequences of an immediate liquidation: a recovery of only 20p in the pound, compared with more than 50p in the longer term if the group is kept afloat.

Some creditors have suggested that the figure of 20p



Michael Jordan, left, and Richard Stone, administrators likely to face a stormy meeting

is unduly pessimistic and has been advanced to browbeat creditors into backing the administrators. One large creditor, who declined to be named, said yesterday: "The administration is consuming a lot of cash. They keep saying, give us time. Maybe I accept what they are saying at this stage, but we can't wait another six months without them achieving anything apart from the sale of a few antiques."

Despite the anxiety in some quarters, though, there was general agreement yesterday that the administrators would get sufficient support to keep the group afloat, at least for the time being.

Warburg Solicitors, the Swiss arm of SG Warburg, which organised SF600m (£240m) of bond issues for Polly Peck and so speaks for a large number of creditors, said yesterday: "There's always frustration when people lose money. But these things take time - it's nothing compared to the time a chapter 11 can take in the US."

There will be little today to assuage creditors' second complaint - that too little information has been released today by the administrators. Creditors

have been told that £595m of Polly Peck group money has been lent to its Turkish and northern Cypriot operations. But they have been given no information at all about how much of it may be recovered, or even what assets there are in the eastern Mediterranean.

Since early this year, an injunction obtained by directors of Unipac and Sunzest Trading, two Polly Peck subsidiaries on the island, has effectively barred the administrators from gaining access to the Cypriot operations. Negotiations with the directors' lawyer, Mr Mendes Aziz, and the apparent support of the northern Cypriot and Turkish authorities, may now have eased the problem.

From what is already known of Polly Peck's assets on the island, it owns one completed hotel and several under construction.

Polly Peck's other Cypriot operations consist of a fruit export company (Sunzest) and a cardboard box manufacturer (Unipac).

It is expected that some new information about assets in Cyprus will be revealed today, although not enough to explain

the huge cash outflows to the area in recent years. The administrators' hands are tied in large part by a legal agreement with Mr Mendes Aziz under which they have agreed not to make any information about the Cypriot situation public without prior agreement.

Creditors will also be asked today to decide a tussle between institutions which have been struggling for a place on the five-person creditor committee, which will oversee the future progress of the administration. The seats are likely to go to the leaders of bank syndicates, or others who can count on substantial creditor support - Warburg Solicitors, for instance, said it already had proxy votes from holders of SF250m of Polly Peck's bonds.

Mr Jordan says he would like to see at least one institutional shareholder on a ten-member advisory committee to be appointed today. That way, shareholders who have seen their £2bn company reduced to rubble will at least be able to walk away from Alexandra Palace feeling it hasn't all been in vain.

Gerrard & National rises 42%

By David Lassell, Banking Editor

GERRARD & National Holdings, the City of London financial services and discount house group, lifted profits by 42 per cent in the year to April 5, but the increase came mainly from non-traditional businesses.

Net profit was £12.13m, up from £8.52m. The final dividend is 14.5p, lifting the total from 19p to 20.5p.

Mr Brian Williamson, chairman, said the discount house business, which trades bills, had not made money despite the fall in base rates from 15 per cent to 12.5 per cent over the period. This was because

the price gains from rate reductions were discounted well in advance by the market. Suggestions that Gerrard had made large profits out of last October's entry into the ERM by the UK were also wrong, he said.

Profits had come from diversified activities in the derivative markets, gilt-edged market making, and GNI, the 70 per cent-owned futures and options broker where taxed profits rose by nearly 30 per cent to £2.9m.

Gerrard Vivian Gray, the stockbroking subsidiary, made an overall loss in the year to January 26, though it had since

returned to profitability. Gerrard also announced the acquisition yesterday of LMI (Moneybrokers) from Exco International LMI specialises in stock lending and has a net asset value of £15m. In its latest financial year it earned £24m before tax. The consideration is £12.5m cash plus £1m a year for the next three years.

Mr Williamson said the acquisition formed part of the group's strategy of investing its capital in promising markets. He stressed that Gerrard was steadily diversifying away from its discount house origins.

Receivers go in at Westerly

Westerly, the yacht building and shoe manufacturing group, was yesterday put in administrative receivership, writes David Churchill.

This follows the decision earlier in the week to appoint administrative receivers at Westerly Yachts, its boat building subsidiary. Last week it stopped production of its luxury yachts following a slump in demand as a result of the recession and the increase in VAT to 17.5 per cent.

The decision to appoint administrators, from Price Waterhouse, followed the failure of last minute talks between Westerly and its bankers, including Barclays which was seeking repayment of a £2.8m overdraft.

Depressed demand cuts Acatos to £2.8m

By Michiya Nakamoto

TAXABLE profits at Acatos & Hutchinson, the edible oils and fats group, fell to £2.8m in the six months to March 31, against £24m in the comparable period.

The result was struck on the lower turnover of £115.74m (£140.89m) and compares favourably with the company's performance in the second half of 1990, when pre-tax profit slumped to £1.2m.

There was an extraordinary item of £300,000 resulting from its decision to terminate its involvement in Macisa, a joint venture in Spain.

After conclusion of the joint venture, the group saw a £2.2m

surplus arising against a £6.9m provision made in September 1990. Of that sum, £1.9m is being used to repay a loan.

Acatos had to abandon plans to go private last year after agreement with a potential equity investor fell through in November. The shares yesterday closed up 2p at 99p.

The group warned that trading conditions remained difficult as high UK interest rates depressed demand and the strength of sterling hampered the group's price competitiveness in the face of imports.

Earnings per share rose to 5.1p (5p) and the interim dividend is unchanged at 1.75p.

Tace showdown with institutions set for June 19

By Andrew Bolger

TACE, the environmental control equipment group, yesterday set June 19 for its showdown with two institutional shareholders - Norwich Union and Framlington - which wish to install a new board.

Sir David Nicholson, Tace chairman, regretted that attempts to reach a compromise had been rejected.

However, Tace further polarised the situation by announcing the appointment as a non-executive director of Mr Bob Morton, who holds a 5 per cent stake through his company

Southwind.

Mr Morton's appointment will be unwelcome to the two institutions and if shareholders support the resolutions they have tabled Mr Morton would be turned out with the rest of the board, including Sir David.

The institutions, which last year ousted Mr Jack Mackenzie, the group's founder, want a board led by Mr Michael Beckett, who quit in April after

clashing with Sir David.

Mr Dick Richardson, Tace's managing director, said plans for a capital reconstruction and rights issue had been "put on the back burner" until the board's future was resolved.

He said Mr Morton had been one of several people willing to underwrite the proposed rights issue, but would not now be able to do so as a director.

In a letter to shareholders, Sir David said: "Norwich Union appears to see this as a test case for investor protection and corporate governance. It is nothing of the kind. It is the attempt of one very powerful institution holding only 5 per cent of your company to impose on this board its own machine. Mr Beckett, as chairman, when in the circumstances the board does not regard Mr Beckett as suitable."

Preliminary Announcement of Results for the year ended 31 March 1991



"Commitment to quality..... emphasis on efficiency"

- Pre tax profits and e.p.s. up over 12%
- 14-8% increase in dividends for the year
- Investment of £255m

Final Dividend per Share 11.8p

Summary of Preliminary Results			
	1991	1990	Pro forma
Turnover	£388.9m	£354.7m	
Profit before tax	£114.1m	£101.3m	
Earnings per share	52.2p	46.5p	
Dividends			
- Interim	5.9p		
- Final	11.8p		
	17.7p		
Investment	£255m	£189m	

Copies of the Annual Report and Accounts will be posted to shareholders in early July. If you would like a copy please write to: The Company Secretary, Yorkshire Water plc, 2 The Embankment, Sovereign Street, Leeds LS1 4BG.

Takare plans debenture placing to raise £15.75m

By Jane Fuller

TAKARE, the nursing home group, is raising £15.75m to fund its rapid expansion by placing debentures.

Mr Keith Bradshaw, chairman, said the group had more than 3,000 beds in use or in units being built, and by the end of this year the figure would pass 4,000. Its plan is to keep growing at a rate of 1,000 to 1,200 beds annually.

Takare has expanded from about 600 beds at the end of 1988, the year it joined the Third Market. In 1989, when it moved up to the main market, it raised £5m via a rights issue and debenture stock placing. Last summer, a share plac-

ing pulled in £18.8m. Mr Hamilton Anstead, finance director, said that before the latest money-raising move, net debt stood at about £20m, giving gearing of 40 per cent. The debenture stock, yielding 12.5 per cent, would be used to replace short-term borrowings.

After spending £32m on building last year, a further £30m-£38m would be absorbed this year and borrowings would rise to £40m.

Takare made a pre-tax profit of £4.4m (£3.1m) on turnover of £14.5m (£8.5m) in 1990. The share price rose 3p to 137p yesterday.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total for last year	Total for this year
Acatos/Hutchinson	1.75	July 22	1.75	-	3.5
Athlone Stream	1.2	July 22	4	4	8
Athlone (A)	3.15	Aug 15	3.15	-	6.4
Berry Bank	1.05	July 11	1.05	-	1.5
British Telecom	1.25	Sept 11	7.15	13.3	11.5
Dobson Park	1.9	Aug 12	1.9	-	5.75
Fleming High Inc.	1.45	July 1	1.35	5.75	5.25
Gerrard & Natl	14.5	July 1	18	20.5	19
Midland	2.17	July 12	1.97	7.5	6.8
Plymouth	3.15	July 18	2.5	4.5	3.5
Storehouse	2.5	Aug 15	2.5	5	5
Thames TV	10.85	July 31	6.85	18	12
Trimco	0.8	July 31	0.8	1.4	1.4
Wander Estate	5.25	July 12	3	0	0
Westbury	0.75	July 19	5.75	9	9
Whitbread	12	July 26	11	16.3	14.8
Yorkshire Water	11.8	Oct 1	10.28	17.7	10.28
Young Brewery	7	July 9	8	13	11.5

Dividends shown pence per share net except where otherwise stated. For nine months.

COMMERZBANK OVERSEAS FINANCE N.V. U.S. \$100,000,000 Floating Rate Notes Due 1995

In accordance with the provisions of the Notes notice is hereby given that for the six months period from May 23, 1991 to November 25, 1991 the Notes will carry an interest rate of 10% per annum with a coupon amount of U.S.\$ 516.87 on U.S.\$ 10,000 and U.S.\$ 2,583.33 on U.S.\$ 50,000.

Frankfurt/Main, May 1991

COMMERZBANK AG

NOTICE OF REDEMPTION TO THE HOLDERS OF ENTE NAZIONALE PER L'ENERGIA ELETTRICA (E.N.E.L.) (the "Company")

U.S. \$100,000,000
9 1/2% Debentures due 1995
Guaranteed by the Republic of Italy

NOTICE IS HEREBY GIVEN, that, as permitted by Condition 5(c) of the Fiscal Agency Agreement dated June 23, 1980 of the Debentures, the following Debentures in the aggregate principal amount of U.S. \$11,300,000 have been drawn for redemption on July 1, 1991 (the "Redemption Date") at the redemption price (the "Redemption Price") of 100% of the principal amount thereof:

SERIAL NUMBERS OF THE DEBENTURES CALLED FOR REDEMPTION																							
2544	2575	2580	2591	2595	2599	2604	2615	2624	2629	2643	2648	2701	2712	2713	2714	2715	2716	2720					
2728	2734	2741	2751	2754	2759	2769	2777	2785	2788	2791	2795	2796	2798	2799	2800	2801	2803	2805					
2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827					
2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846					
2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865					
2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884					
2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903					
2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922					
2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941					
2942	2943	2944	2945	29																			

UK COMPANY NEWS

Yorkshire Water ahead of expectations with £114m

By Clare Pearson

YORKSHIRE Water yesterday underlined its determination not to encourage a dividend race as it kicked off the reporting season for the sector.

Sir Gordon Jones, chairman, announced a final payment of 11.5p, holding the annual increase at 14.8 per cent to 17.7p for the year. He stressed the company's commitment to a "progressive medium term" dividend policy.

Pre-tax profits for the year to March 31 came out at the higher end of market expectations at £114.1m (£101.3m).

Turnover was £388.9m (£354.7m) and earnings per share 52.2p (46.5p).

Sir Gordon said overall increases in charges for 1991-92 were about 13 per cent, just below the permitted maximum

for Yorkshire and the lowest for the 10 companies.

The company was slightly ahead of schedule on its £2.5bn 10-year capital expenditure programme, having sharply increased spending from £188m to £253m. The profile of the programme meant that spending would now remain at current levels.

Yorkshire continued to put a high emphasis on raising efficiency. Efforts last year included a reorganisation which would eliminate 170 jobs. Operating costs rose by 8 per cent to £282.9m (£262.1m).

The company said the adverse impact of the recession on revenues was no more than £51.7m, operating profits £94.4m, and the dividend payment 10.23p.

The drought had also created cost pressures.

Factors beneficial to costs included negotiation of new electricity tariffs, the switch to the uniform business rate and lower-than-expected charges for civil engineering and tunnelling. High interest rates benefited net interest receivable of £2.1m (£3.7m).

The enterprise division, which comprises Yorkshire's non-core activities such as laboratories and engineering, contributed £7.1m to turnover.

The comparisons are with pro forma figures for 1989-90, during which period the water companies were privatised. The actual reported figures for that year were: pre-tax profits £51.7m, operating profits £94.4m, and the dividend payment 10.23p.

Regulator's shadow over season of results

Clare Pearson reports on a warning to bear in mind the duty to customers

MR IAN Byatt, director general of the Office of Water Services, cast a shadow over the sector yesterday as what is expected to be a bumper results season for the 10 companies began.

While Yorkshire Water was announcing a 13 per cent increase in annual pre-tax profits, Mr Byatt was dispatching a letter to the companies pointing out the risks of unexpectedly high increases in dividends and profits.

The letter warned that "if companies were to pay out dividends above those anticipated when the K factors were set they would need to be ready to answer pointed questions from customers and from the regulator."

He noted that the rise in inflation since the regulatory regime was created in 1989 had presented "problems for customers." He said that when bills were rising rapidly, "customers will not expect companies to make unnecessarily high profits... and pay out excessive dividends."

The letter was the clearest indication yet of Mr Byatt's stance, although it followed some heavy hints of his growing concern about the implications for customers of the companies' buoyant profitability.

It comes as the companies find themselves in the potentially embarrassing situation of

having introduced charge increases averaging about 15 per cent this year, while plummeting inflation is pushing down costs.

Yorkshire Water, the first company to report, has adopted a circumspect approach to what looked, at the interim stage, like a dividend race. But much bigger rises than Yorkshire's 14.8 per cent are expected from other companies over the next few weeks.

Behind their apparent generosity is a sharp improvement in profitability over that expected in 1989 when the regulatory system was created.

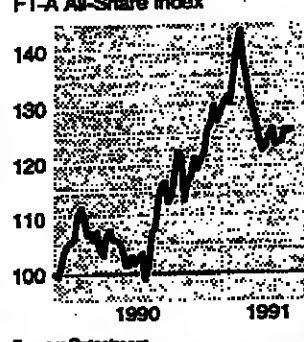
The key tool in this regime is the so-called K factor, part of a formula by which each company is allowed to raise charges above the rate of inflation annually over the next 10 years, so that they can handle their massive capital expenditure programmes to meet improved standards.

Mr Lakis Athanasiou, water analyst at UBS Phillips & Drew, believes that the pre-tax profits the companies announce for the year to end-March are likely to be on average 20 per cent higher than envisaged in the K negotiations.

Part of that out-performance can be attributed to changed economic conditions the benefit of higher interest rates on cash balances and the recession

Water

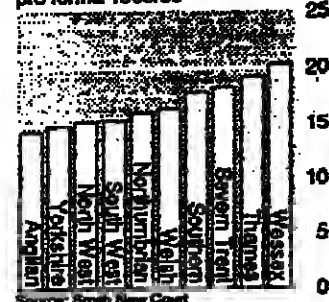
FT-A index relative to the FT-All-Share Index



Source: Datastream

Dividend growth in the water sector

Forecast annual increases to end March 1991, compared with pro forma 1989/90



Source: British Water Chart

sion in the building industry, which has contained construction costs.

Meanwhile, higher than expected inflation has meant that the companies have been delivering dividend increases which look extremely good compared with the stock market over all.

But then, back in the pre-recessionary days of 1989, it was thought necessary to factor into their structure the ability to increase annual dividends by about 4 per cent in real terms.

However, the companies will argue that it is not just favourable changes in economic conditions that have fuelled their efficiencies which are genuine results of management action.

within the K factors - something which they did not do this year.

Yesterday's letter hinted that he might do just that. He noted: "If companies do not need to plough back unexpectedly high profits, they may wish to consider not taking up the whole of their K factor when raising prices in April 1992."

The threat to the companies should not be exaggerated.

Whatever he did, Mr Byatt would hardly go so far as to ruin their financial health. And his letter states that he has no wish to "deny the importance of incentives in a price-cap regulatory system."

Indeed, news of his letter had no effect on prices of water shares yesterday. They are being driven by a broader consideration about the utilities sector. That is the expectation that the offer price, to be announced next week, for the privatisation of the Scottish electricity companies will leave water companies looking cheap.

Nevertheless, it looks as if the companies themselves would be well-advised to apply some hard thinking to how they might justify where their profits are coming from. It is only a month before their reports on capital expenditure and services, which they are required to submit annually, are due on Mr Byatt's desk.

36% setback for Dobson Park

By Andrew Bolger

DOBSON PARK Industries, the mining equipment, industrial electronics and toys group, blamed difficult trading conditions for a 36 per cent decline in pre-tax profits, from £10.16m to £6.53m, for the six months to March 30.

Turnover dropped by 12 per cent to £114.17m. Earnings per share fell 40 per cent to 3.52p (5.87p) but the interim dividend is maintained at 1.5p.

Mr Gordon Marshall, chairman, said the lower sales levels, particularly in the industrial electronics, power tools and toys divisions, illustrated recessionary conditions in both the UK and US, although European markets were still

buoyant.

The deterioration in mining equipment operating profits to £2.07m, compared with £4.16m, resulted from lower level of UK demand, partly offset by an increase in overseas business, and rationalisation costs of about £1m.

Overall restructuring costs rose from £100,000 to £1.3m. In the past six months, the group has shed about 580 jobs.

Mr Marshall said investment management profits of £456,000 were down from last year's exceptional £1.4m which followed the sale of a factory in Ealing. Interest payable fell from £1.21m to £378,000. Further measures were

being taken to cut manufacturing activities to match current volume expectations. In particular, the Britains toy site in Walthamstow, north London, would be closed before the end of the calendar year, with the loss of a further 200 jobs, and its manufacturing activities transferred to the Petite factory in Nottingham.

Mr Marshall said there had been few detectable signs yet of any recovery in general business levels. However, because of more mining equipment contracts and the seasonal nature of the toys business, he was looking forward to an improvement in the second half.

Miller halved to £10.75m after land write-downs

By James Buxton, Scottish Correspondent

MILLER GROUP, the Edinburgh-based concern which is one of the UK's largest privately-owned construction and development companies, saw its pre-tax profits halved from £21.54m to £10.75m last year.

In results which Mr James Miller, chairman, described as "a little bit disappointing," turnover fell 8 per cent to £225m (£255m).

Write-downs on land and property totalling £5.5m this time, whereas in 1989 Miller had benefited from the sale of properties at favourable prices. The company said that construction, its largest subsidiary, had suffered from the

general downturn in orders and squeezed contract margins within the industry, especially in the south of England. It was announced in part by developing joint ventures with companies offering specialist construction skills.

Miller Construction was chosen recently to build the £23m privately-funded bridge between the Scottish mainland and the Isle of Skye.

Mr Miller, the largest shareholder in the family-controlled company, said he thought it would be 1992-93 before the effect on the construction industry of very keen contract prices had worked its way through.

Agreement on BCMB sale

By David Lascelles, Banking Editor

Administrators of British & Commonwealth Merchant Bank confirmed yesterday that they have reached agreement in principle to sell the bank to Charterhouse, the merchant banking arm of the Royal Bank of Scotland.

They said they hoped to exchange contracts by the end of June with completion soon afterwards.

If the deal goes through, it is expected that BCMB's depositors and other creditors will be repaid in full.

BCMB has £100m of stockbroker client money which has been frozen. It has been in administration since last summer's collapse of its parent.

Dutch activities behind Plysu's advance to £7.5m

By David Owen

PLYSU, the plastic packaging and housewares manufacturer, reported record pre-tax profits of £7.52m as its Dutch operations combined with lower interest costs to offset the impact of the UK recession.

This compared with £5.51m in the year to March 31 1990 and with £6.82m the year before. Turnover climbed 11 per cent to £55.27m (£50.83m).

Plastic bottle activities had a more difficult second half than anticipated, partly because of higher polyethylene prices as a result of the Gulf war.

There was also a period of shortage when the company "could not always be sure of obtaining the optimum grade

of material." The situation is now "much improved".

Houseware business was hit by lower consumer demand but this was more than offset by improved efficiency. Dutch sales and profits were both "well ahead" of last year, with turnover of £3.82m.

Capital expenditure amounted to £5.5m, mainly on further fitting the milk bottle capacity. Interest costs were £1.04m (£1.5m), while year-end gearing stood at 22 per cent. Earnings per share were 11.4p (8.6p). A final dividend of 3.15p makes a total of 4.5p (3.5p). The shares climbed 9p to 152p.

Airflow Streamlines declines by 62%

TAXABLE PROFITS at Airflow Streamlines, the Northampton-based vehicle cab manufacturer and Ford main dealer, divided by 62 per cent over the 12 months to February 28. The final distribution is halved.

The fall in profits - from £3.2m to £1.22m - came on turnover virtually static at £65.18m (£66.14m).

Directors said that already reduced demand for cab assem-

blies worsened during the second half and substantial redundancy costs were incurred. The situation was "severely compounded" by the deferred introduction of a new product line.

Overall, the manufacturing division saw profits fall from £1.87m to £726,000.

Declining demand also affected the Ford and Iveco dealerships with profits in the motor division down to

£490,000 against £1.33m.

On prospects the company said that demand for cab assemblies remained at a low level and the sale of new cars and trucks was affected by the recession, however other activities of the motor division continued to be satisfactory.

Earnings per share were 8.97p, down from 23.22p, and the final dividend is halved to 2p for a total of 4p (6p).

BT

Preliminary Results 1990/91

	Fourth Quarter		Full Year	
	£m	Increase	£m	Increase
Turnover	3,401	3.8%	13,154	6.8%
Operating profit	899	5.8%	3,531	10.0%
Profit before tax	756	10.5%*	3,075	14.2%*
Profit after tax	515	12.4%*	2,080	16.3%*
Earnings per ordinary share	8.6p	15.6%*	34.0p	16.4%*
Dividends per ordinary share (net)			13.3p	12.7%

* Increase based on results for 1990 before exceptional charge of £390m.

The accounts from which these non statutory results are extracted have not yet been filed with the Registrar of Companies or reported on by the auditors.

A final dividend of 8.05 pence net per share, if approved at the Annual General Meeting on 18 July will make a total dividend of 13.3 pence net for the year. It will be paid on 11 September to these shareholders on the register on 8 August, 1991.

Highlights

- Turnover up by 6.8%.
- Earnings per share up by 16.4%.
- Dividends per share up by 12.7%.
- Quality of service continues to improve.

BT has achieved sound results in difficult economic conditions. Growth in demand for services has declined progressively throughout the year in line with the UK economy, but BT has contained its costs and operating margins have improved. In addition the company has undertaken a fundamental restructuring to prepare itself for the challenges of the 1990s."

Iain Vallance
Chairman

If you have any queries as a shareholder, please call 0345 010505. For daily information on the BT share price and matters of interest to shareholders generally please call 0345 010707. You may telephone these numbers from anywhere in the UK for the price of a local call.

British Telecommunications plc, 81 Newgate Street, London EC1A 7AJ.

RESULTS FOR THE YEAR ENDED 5TH APRIL 1991

	1991	1990
Profit for the year after tax	£12,128 m	£ 8,523m
Total cost of dividends	£ 7,986 m	£ 7,265m
Disclosed shareholders' funds	£94,299m	£ 88,643m

GROUP PROFIT FOR THE YEAR Group profit for the year ended 5th April 1991 amounted to £12,128,000 after providing for taxation and minority interests. Group profit has been struck after a modest transfer to inner reserves (1990 no transfer). As described below a provision has also been taken directly against inner reserves.

DIVIDEND A final dividend of 14.5 pence (1990 16 pence) is proposed. This together with the interim dividend of 6 pence (1990 3 pence) will make a total distribution of 20.5 pence, which represents an increase of 7.9% on 1990. The proposed final dividend on the ordinary 25p shares will be payable on Monday 1st July 1991 to shareholders on the register at the close of business on Friday 14th June 1991.

DISCLOSED SHAREHOLDERS' FUNDS The Group's disclosed shareholders' funds at 5th April 1991 amounted to £94.3 million compared to £88.6 million last year.

TRADING CONDITIONS During our year to 5th April 1991 United Kingdom Clearing Bank Base Rates fell from 15 per cent to 12 1/4 per cent. In the first half of the year they fell by one per cent in one movement, and in the second half of the year by one and a half per cent in three reductions of a half per cent. Whilst these falls presented favourable trading conditions accurate timing was important as the reductions were often discounted by the markets well in advance.

REVIEW OF OPERATIONS Gerrard & National Limited and Gerrard & National Securities Limited, the market making subsidiaries, which are effectively managed as one unit, both traded profitably. Overall trading profits were buoyant and were evenly split between the first and second half of the financial year with profits being made in all four quarters. This year a contribution was also made by Gerrard & National Options Limited which makes markets in Stock Exchange Index futures and options.

GNI Limited our 70% owned subsidiary, which operates as a futures and options broker and fund manager, benefited from the continued growth in futures and options markets and after tax profits increased by nearly 30% to £2.97 million.

Gerrard Vivian Gray Limited, our stockbroking subsidiary, while profitable in the first half of its year incurred losses in the second half resulting in an overall loss for the period to 25th January 1991. In the quarter since then Gerrard Vivian Gray has returned to profitability as Stock Exchange turnover has increased and as the loss making financial services division has been cut back.

Last year we stated that we had reviewed all the Group's operations and intended to withdraw from businesses that did not have realistic prospects of providing an appropriate return on capital. During the course of the year we have continued to run down our commercial banking business. Because of the extent of adverse economic conditions and the consequent difficulties in obtaining the repayment of loans at full value this withdrawal led to the need for further significant provisions in October 1990, as previously stated, and again finally in April 1991. The Board is now confident that there will be no need for any further provisions.

ACQUISITION Last year we also stated that we would seek new areas of business if they met our criteria. We have now agreed to acquire the Stock Exchange moneybroking business LM (Moneybrokers) Limited from Exco International PLC. Details of this acquisition are set out in a separate press release also published today and shareholders will receive a circular with details in the near future.

SUMMARY 1990/91 was a successful trading year. Further reductions in interest rates as inflation subsides and as the economic recovery proves muted should benefit the market making subsidiaries, and our other subsidiaries are well positioned to take advantage of any increased turnover in their markets.

22nd May 1991

WOOLWICH BUILDING SOCIETY

£200,000,000 Floating Rate Notes Due 1995

In accordance with the terms and conditions of the Notes, notice is hereby given that for the three month interest period from (and including) 22nd May 1991 to (but excluding) 22nd August 1991, the Notes will carry an interest rate of 1 1/4 per cent, per annum. The relevant interest payment date will be 22nd August 1991. The coupon amount per £10,000 Note will be £54.99 payable against surrender of Coupon No: 22.

Hambros Bank Limited
Agent Bank

UK COMPANY NEWS

Thames TV plunges as Exchequer levy soars

By Jane Fuller

THAMES Television, the largest of the ITV franchises, saw pre-tax profit drop to £10.07m in 1990 after sharp rises in the Exchequer levy and redundancy costs.

Comparative figures were available because Thames previously reported for the nine months to December 1989. But in that period pre-tax profit was 2.6 times greater at £26.35m.

Thames, which is 56 per cent owned by Thames EMI, is facing competition for the London weekday franchise, serving 4.8m homes, from Carlton Television and CTV-TV.

Mr Richard Dunn, chief executive, said the "devastating" £21m Exchequer levy (£12m for nine months) was £11m higher than it would have been under the previous method of calculation.

The switch of emphasis to revenue, rather than profit, and the use of the more buoyant 1989 as a base year had led to the big increase.

About 300 redundancies had cost £7.5m (£2m), bringing the workforce down to 1,450, compared with a peak of 2,294 in 1988. A further 200-plus reduction was planned.

Taken with a £1.6m increase in the bill for the ITN news service, after accounting errors at ITN, these three charges knocked about £18m off profit, Mr Dunn said.

Advertising revenue had declined since August and Thames' share of network revenue fell to 15.2 per cent (15.7 per cent in 1989).

In the first quarter the network total was down 6.8 per cent, while Thames' share improved to 15.5 per cent.

Operating profit before the levy was £41.23m (£35.42m) on turnover of £378.09m (£270.64m). A loss of nearly £2m was incurred by Reeves, the US production subsidiary bought for £39.6m in January last year and resulting in a total cash outflow of £72.5m. It contributed programme sales of £26.2m.

Mr Dunn said performance this year depended partly on the syndication or sale of two big series. The acquisition's costs were to some extent offset by a £4.6m exchange gain.

Net borrowings in December were £40.5m and interest costs for the year were £2.1m (£2.9m received).

Debt was set to come down substantially over the next 18 months, said Mr Dunn. Net assets fell to £44.5m (£101.5m), reflecting a £51.5m goodwill write-off on Reeves. The extensive programme library was not on the balance sheet.

There was a £6.8m extraordinary provision against an investment in an Australian television company that had gone into receivership.

Earnings per share fell to 13.3p (34.4p) or 23.2p (37p) before exceptional items. The dividend was effectively maintained at 16p (12p) after a proposed final of 10.85p.



John Young: "seeing a swing back to traditional ales after years of lager supremacy"

Young tops £5m as beer sales rise

By Philip Rawstone

INCREASED BEER sales helped lift annual pre-tax profits of Young & Co, the south London-based brewer, by 9 per cent from £4.62m to £5.03m.

Beer volumes were 5 per cent higher and margins improved in a generally depressed market. Gains were made both in the brewer's 155 pubs and in the free trade. "We are seeing a swing back to traditional ales after years of

lager supremacy," said Mr John Young, chairman. After a slow start, demand for Young's ale brands was now rising strongly in the "guest beer" market among pubs in other brewers' estates. Trading profit during the year ended March 30 rose 27 per cent to £8.86m (£5.39m) on turnover ahead 13 per cent at £58.52m (£51.98m).

Earnings per share expanded

18 per cent to 28.39p (24.11p) and a proposed final dividend of 7p raises the total payout by 13 per cent to 15p (11.5p). "Although the outlook is somewhat unsettled, we are cautiously optimistic for the coming year and will take full advantage of the further opportunities that may arise as a result of the Monopolies and Mergers Commission report," Mr Young said.

Westbury slides into red and calls for £21m

By Andrew Taylor, Construction Correspondent

WESTBURY, the Cheltenham-based housebuilder, yesterday became the latest construction group to make a cash call on its shareholders.

It is seeking to raise £20.7m via a 1-for-3 rights issue of 16.51m shares at 130p apiece. The money is to be used to reduce bank borrowings which at the end of February stood at £55.8m, equivalent to 89 per cent of shareholders' funds.

Construction and building materials companies have sought to raise more than £1bn of the £4.3bn which UK companies have attempted to raise from rights issues in the first five months of this year.

The issue accompanied news of a pre-tax loss of £3.12m for the 15 months to end-February. That compared with pre-tax profits of £28.12m in the previous year. Turnover amounted to £171.1m (£174.36m).

Westbury sold 2,576 homes - 13.7 per cent more than in the previous year. Average prices, however, fell from £72,700 to £61,900 as the group sold more houses to first time buyers.

Losses per share emerged at 14.6p, against earnings last time of 36.6p. However, the final dividend is again 5.75p for a maintained total of 9p.

The rights issue has been fully underwritten by Klein-

wort Benson. Mr Fraser said the cash would be used "to reduce debt and strengthen the balance sheet by improving interest rate cover."

It would also allow the group to strengthen its landbank by selective purchases of land "at prices which are more realistic than they have been for several years".

Losses last year included an exceptional provision of £12.75m attributable to a write-down against the landbank and £779,000 to cover reorganisation costs.

● COMMENT

Companies in a far worse state than Westbury have announced rights issues since January 1. The market, despite the large amounts of construction paper on offer at the moment, chose to look kindly on its announcement and the shares yesterday fell just 4p to close 11p above a theoretical ex-rights price of 155p. Gearing after the issue should fall to about 30 per cent underlining the sound state of the balance sheet by comparison with others. A fully-fledged housing recovery may be delayed until next year. Nonetheless the rights look reasonable value even on a prospective p/e of more than 20 on pre-tax profits of £5.5m this year.

Depressed motor sales trim Trimoco to £2.5m

By Jane Fuller

FORD's falling share of the UK car market and depressed margins in the motor trade saw pre-tax profits at Trimoco fall by 34 per cent, from £3.8m to £2.5m.

The Saudi Arabian Jameel organisation, which last year took over Havel, the Oxford-based motor distributor, has a 24.4 per cent stake in Trimoco and holds most of the outstanding convertible loan stock. Conversion would take it to 33.4 per cent.

Trimoco's turnover for the year to March 31 declined to £245.62m (£280.78m). Mr Keith Hill, finance director, said the main disappointment had been new car sales. Most of the company's franchises are Ford.

Motor dealership operating profit fell from £6.17m to

£4.18m. The number of new cars sold dropped by nearly 19 per cent to 12,124, while used car profit fell 17 per cent.

Property profits rose to £2.28m (£1.79m), thanks to rent increases charged internally to motor dealerships.

Overall, operating profit fell 17.5 per cent to £5.55m (£7.99m). Interest payable was £4.06m (£4.16m).

Mr Hill said that conversion of loan stock to equity and reduced working capital had reduced net debt to £20.75m (£31.44m) and improved shareholders' funds, giving gearing of 66 per cent compared with 123 per cent.

Fully diluted earnings per share were 1.39p (2.34p). A final dividend of 0.8p makes an unchanged total of 1.4p.

NEWS DIGEST

Shaftesbury falls £5.86m into red

THE CONTINUED decline in the property market hit Shaftesbury in the half year ended March 31 1991, and it incurred a pre-tax loss of £5.86m, against a profit of £194,000.

Included were provisions of £3.58m, comprising £3.04m against the cost of certain development properties and £1.24m for the share of provisions against properties held as current assets by associates.

Rents receivable rose to £2.9m (£2.64m), but interest charges increased to £3.03m (£1.24m). No interest was capitalised. Losses per share were 23.9p (earnings 0.46p).

Financing details of Medeva's US buy

Medeva, the pharmaceutical group, has announced the financing details of its \$74.4m (£45m) purchase of MD Pharmaceutical, its first US acquisition.

Consideration is \$72.2m in cash, which Medeva has arranged to be satisfied by the allotment to the vendor of 33.1m new ordinary shares. In addition, the vendor will be granted an option to acquire up to 3m ordinary shares at a market-related formula price.

A further 11.92m new ordinary will be issued to provide \$2.2m to fund incentive bonuses for senior managers and key employees of MD Pharmaceutical and about \$10m for working capital and costs of the placing.

The shares have been conditionally placed with institutional and other investors at 128p per share, and under the open offer Medeva shareholders are being offered the 45.02m new ordinary on the basis of 1-for-3.

Citybond and Hays agree offer terms

Directors of Citybond Storage Services and Hays have agreed the terms of a recommended cash offer from Hays of 182p cash for each Citybond share, a separate agreement, which depends on the offer becoming unconditional in all respects, has been reached with Citybond "A" shareholders in respect of their shares.

The total value placed on Citybond by the offer and the agreement is about £2.5m.

Archer cautious on dividend payment

Reflecting increased agent's fees, AJ Archer Holdings lifted pre-tax profits from £650,000 to £708,000 in the half year to March 31.

This Lloyd's underwriting agent is holding the interim dividend at 3.15p but could give the assurance that the 5.25p final would be maintained.

Mr Richard Maylam, chair-

man, warned that the underwriting conditions in 1988, 1989 and 1990 would have an adverse impact on the results and the level of dividend for the financial years 1992 and 1993.

He said since March 31 the group had received profit commission for the 1990 account of £2.2m, only half of the 1987 figure.

Turnover in the half year came to £1.32m (£1.17m). Operating profit was £335,000 (£290,000) and interest receivable £373,000 (£370,000). Earnings per share worked through at 1.5p (1.7p).

Berry Birch moves ahead to £0.63m

After a year's absence Berry Birch & Noble is returning to the dividend list with a payment of 1.5p.

Turnover of this financial services and insurance broking group rose from £4.92m to £5.26m in the year ended January 31 1991, while pre-tax profit expanded, from £400,000 to £628,000.

Net interest received came to £264,000, against £25,000 paid. There was an extraordinary charge of £106,000 (£86,000) representing costs related to the withdrawal from micro-electronics. Earnings per share were 6.2p (4.5p).

James Crean lower with £19.6m

James Crean, the Dublin-based food, household goods and industrial equipment wholesaler, reported a 9 per cent fall in taxable profits from £221.58m to £219.8m (£17.7m) in 1990.

Turnover fell to £2179.72m (£2194m), income from related companies dropped to £21.72m (£24.65m) and interest charges rose from £1.5m to £2.74m.

Earnings per share were a lower 45.1p (53.5p) and there is no final dividend proposed (£0.4766p). Instead, a first interim dividend of 10.4766p in respect of 1991 is declared.

Morland benefits from draught sales

Morland, the Thames Valley brewer, lifted turnover 18 per cent and pre-tax profit 12.5 per cent in the year to March 31 1991.

Mr Jasper Clutterbuck, chief executive, said the outlook for the rest of the year remained satisfactory. Negotiations with Courage to purchase 100 pubs were proceeding to plan.

Turnover amounted to £15.25m (£13m), operating profit to £2.28m (£1.88m), and the pre-tax balance to £2.87m (£2.88m) after surplus on property disposals of £235,000 (£279,000).

Mr Clutterbuck said sales of draught beer increased by 6 per cent. Additionally there had been a continuing swing from lager to ale with a consequential and beneficial impact on profit.

Earnings per share were 11.3p (10p) and the interim dividend is 2.17p (1.97p).

Profits doubled in the last five years

Inchcape's 1990 results:

- Pre-tax profit: £174 million (1986: £85.6m)
- Earnings per share: 26.1 pence (1986: 12.4p)
- Dividend per share: 11.8 pence (1986: 5.25p)

Success of this order owes much to clear aims and a well focused strategy. By concentrating on a limited number of business streams and making them globally competitive, Inchcape intends quite simply to be the world's leading player in international services and marketing.

It is well equipped to succeed. Firm financial management, quality people, excellent relationships with principals and a presence in some of the world's fastest growing businesses and markets are central to the Inchcape ethos.

"The Group thinks long-term," says Chairman, Sir George Turnbull. "Our success since 1986 gives solid grounds for confidence as we look forward to the next five years."

For a copy of our 1990 Annual Report and Accounts, call Joanna Roach in our Corporate Affairs Department on 071-321 0110.

Inchcape
THE INTERNATIONAL SERVICES
AND MARKETING GROUP

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COMMODITIES AND AGRICULTURE

EC pushes farm spending plans to budgetary limit

By David Gardner in Brussels

THE European Commission last night pushed its proposed farm budget for this year up to the absolute ceiling allowed by the "guideline" governing agricultural spending.

At the same time Brussels threatened to take this year's price package to EC finance ministers if the agriculture ministers meeting here could not agree to its modified proposals.

Commission officials said spending would be raised marginally to accommodate small changes and use up the full farm budget allowance of just over Ecu32.5bn (\$38.8bn). An extra Ecu500m this year - less than half a day's spending under the Common Agricultural Policy (CAP) and Ecu200m (year) will be added to planned spending.

Mr Ray MacSharry, EC agriculture commissioner, said "he would compromise... will include slight modifications on cereals, beef and milk, but no changes in the substance" of the commission's proposals. He stressed that "the commission has gone as far as it can" while still staying within EC law.

The guidelines were set by a European council of heads of

Coarse grain stocks fall forecast

By David Blackwell

WORLD STOCKS of coarse grains are expected to fall to 116m tonnes by the end of 1991-92 - the lowest level for seven years and less than half the stocks at the end of 1986-87, according to the International Wheat Council in its first forecast.

Production, at 830m tonnes, is forecast to fall below consumption for the fifth year in succession, says the IWC in its monthly grain market report. That level would represent a rise of about 7m tonnes over the current season.

While larger crops are expected in the US, the EC and eastern Europe, significant declines could occur in China and the USSR. The position in Africa appears better than a year ago, and South African production is expected to improve after last season's drought.

Consumption is estimated at 84m tonnes, almost unchanged from the current season. This figure will depend on whether the Soviet Union succeeds in getting finance to cover the cost of imports.

Demand in Far East Asia, where meat consumption is rising quickly, should continue to increase, says the report. US demand for maize for cattle feed is expected to return to normal levels.

The IWC has raised its earlier forecast for wheat in 1991-92 by 10m tonnes to 56m tonnes. This would be second only to the 1990-91 record of 59m tonnes.

The volume of world wheat trade is expected to recover to 97m tonnes, assuming that the Soviet Union will get more credit from exporting countries and that living will resume imports at the same level as before the Gulf war.

Survival is the key to prosperity

John Barham explains moves to restrict Falkland squid catches

THE Falkland Islands might have one of the world's richest and most strictly-controlled fishing zones, but the threat to fish stocks and prosperity is as real as ever.

As always the Illex and Loligo squid, the most prized species in the South Atlantic, are most at risk from overfishing. The menace to the islands' finances is also considerable. Fishing licence sales are the islands' largest source of income, worth £23.7m, or 63 per cent of government operating revenue, this year.

That is why the Falklands is trying to restrict squid capture to 60 per cent of the stock and allow 40 per cent to escape, reproduce and perpetuate the resource. Since squid live for only one year, overfishing could rapidly destroy the entire stock.

Well over half the licences are issued for "jiggers", vessels equipped with powerful lights that operate at night. The squid, attracted by the lights, are caught on lines operated by automatically-controlled winches that work in continuous motion, literally jigging the squid on board, where they are processed and frozen.

A typical jigger will have 90 arms and catch up to 80 tonnes of squid a night.

The largest squid markets are in Southern Europe and Asia, so Japanese, Taiwanese, South Korean and Spanish fleets have the largest presence at the close of the season.

The first squid fleets probably arrived off the Falklands in

SQUID CATCH

Tonnes	1987	1988	1989	1990
Illex	142,501	208,829	222,272	102,001
Loligo	82,547	63,930	118,863	52,088

Source: Falkland Islands Fisheries Directorate

1977. Within five years annual catches exceeded 200,000 tonnes. The Falklands established their first fishing controls in 1986 and now claim to have the best managed fishery in the world.

Nonetheless, Mr John Barton, director of the Fisheries Directorate, recognises that too few squid are escaping. He hopes to raise the escape rate to between 20 per cent and 30 per cent this season, from between 10 per cent and 30 per cent in 1989-9.

The Falklands has cut fishing both by restricting licence sales and by raising prices. Squid prices have also fallen in a glutted market. In 1990 the Illex catch halved to 102,001 tonnes and the Loligo catch fell by a third to 52,088 tonnes.

The squid are migratory creatures that move southward from feeding grounds in international waters into the Falklands' 150 mile Exclusive Economic Zone (EEZ). In 1989-9 30 per cent of the squid escaped capture inside the EEZ. Only 10 per cent survived in the high seas.

This year, therefore, the focus of conservation has shifted to international waters. In agreement with Argentina a 50-mile outer band has been

A pilot said: "The poachers always stay on the edge of the zone so they can escape whenever they see us coming." That does mean the patrols do scare off intruders.

The impact of the £200m-a-year fishing industry in the Falklands is uneven. A small number of businessmen are the few direct beneficiaries of the boom, although the industry provides some seasonal jobs for manual labourers and license revenues are financing infrastructure projects.

The Falklands is unable to provide a satisfactory base for fishing because the islands themselves are supplied from Britain. Officials fear excessive government support for local businesses, such as the earlier encouragement for locals to operate as licence brokers, could encourage corruption.

Mr Mike Summers, head of the Falkland Islands Development Corporation (FIDC), said: "The fact is that locals do not have the money to buy into the fishing industry. But we are giving (foreign companies) the signal to get involved on a genuine basis with local companies. We need to build up a local body of knowledge."

The FIDC is also trying to find a way into the highly protected squid market. Mr Summers said: "There is no access to the Illex markets in Japan or South Korea. We are trying to establish what we mean by Illex, whether it's in service or fishing, which is what goes on here, or whether it is processing or even marketing, most of which is in Asia."

Fungal threat to Bahia cocoa

By Victoria Griffith in Sao Paulo

BAHIA's cocoa crop could be wiped out within five years by the fungal disease known as "witch's broom" if steps are not taken soon to control it.

That is the prediction of Mr Paulo Fernando Nunes da Cruz, regional superintendent of Cepiac, the government research centre for cocoa, and Mr Ronaldo Monteiro Carvalho, president of the cocoa growers' union.

Witch's broom fungus arrived in the region several years ago from the Amazon. It was not until 1989, however, that the first case was reported.

To Cepiac, Mr Nunes said: "Farmers here were afraid that if they acknowledged the disease the agricultural ministry would go in and burn down all their trees. That fear kept us from nipping the disease in the bud."

Cepiac has adopted a surgical approach to the disease. Infected sections of the trees are cut off and burned.

So far the fungus has affected 900 out of 30,000 farms in the region. The trouble, that its latent stages, the disease can spread very quickly and there is no known cure.

British cobalt imports up in first quarter

By Victoria Griffith in Sao Paulo

IMPORTS of cobalt into the UK during the first quarter of 1991 were just above 856 tonnes, compared with nearly 879 tonnes during the same period of 1990, official figures show, Kenter reports.

The latest import figures show Zambia and Zaire remain the main suppliers of the metal at nearly 375 tonnes compared with 300 tonnes in first quarter 1990.

Sharply higher imports from the European Community were due to a more than doubling in imports from Belgium to around 121 tonnes.

Other notable rises were Norway at 50 tonnes from 22 tonnes and the Soviet Union at 92 tonnes from just 1.5 tonnes in the 1990 first quarter.

Rubber intervention procedure revised

By Lim Siong Hoon, in Kuala Lumpur

THE International Natural Rubber Organisation is to step up its intervention in the world market by altering the buffer stock manager's buying procedure, delegates agreed at the close of its first session in Kuala Lumpur.

Under the agreement the manager is to enter the market whenever Inro's indicator prices stay below its lower intervention, or "may buy", level of 126 Malaysia/Singapore cents for more than seven days. The "must buy" level is 166 cents.

The move is intended to resuscitate the market, which has been in a slump for nearly two years. In that time the manager has intervened only once, buying about 30,000 tonnes.

Inro's five-day indicator prices have often fallen below the "may buy" level in the past year without prompting any intervention by the manager.

The new procedure has been introduced at the behest of producers, particularly Malaysia and Thailand, who argued that price stabilisation should over-

ride cost considerations.

"Inro is not here to make money," said one delegate.

Getting the agreement seemed crucial to producers, not only because of the low prices, but also because the Association of Natural Rubber Producing Countries (ANRPC) is scheduled to meet early next month in Papua New Guinea to discuss the present state of the market.

Last month Thailand said it would pull out of Inro if it, or the ANRPC, did nothing to get rubber out of the doldrums.

To support producers Inro can immediately call up a budget to buy 400,000 tonnes, and by special deliberation funds

for a further 150,000 tonnes.

Another issue remains to be dealt with - the daily market indicator price. A report commissioned from Landel Mills Commodities proposed changes to the basis by which the DIMP is calculated.

The proposal, if passed, would have far-reaching consequences on the buffer stock operations.

Three elements are used to determine the DIMP: the types of rubber grades traded, the weighting of each grade, and the four markets to which they are sold.

The DIMP is thought to be distorted in at least two ways. First, TSR 20, which has risen

Brazil appoints coffee policy director

By Victoria Griffith in Sao Paulo

THE BRAZILIAN Ministry of Economics has announced the appointment of Mr Celso Loder as its director of coffee policy in the first step to articulating the country's position on an international coffee agreement.

Mr Loder replaces Mr Ricardo Mesquita as head of the department of supply and prices.

With the exit of Mr Mesquita and Mr Zeti Carmona de Mello, Brazil's economics minister, two weeks ago, the government lost two apparent champions of an international coffee agreement.

Many in the coffee sector believe Mr Marcelo Marques Moreira, the new economics minister, will play the most important role in formulating Brazil's position on an international agreement. He is well known for his conciliatory approach to debt negotiations.

Mr Orlando Correa, president of the coffee trade centre in Rio de Janeiro, said: "Changes in the government's ministry are no sign that Brazil will sign a coffee accord, this year."

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Other notable rises were Norway at 50 tonnes from 22 tonnes and the Soviet Union at 92 tonnes from just 1.5 tonnes in the 1990 first quarter.

WORLD COMMODITIES PRICES

MARKET REPORT

Robusta coffee prices continued this week's downward plunge yesterday in London. The market equalled the second position low of £515 set in February before closing at £519 a tonne, a fall of £11 on the day. Light roaster buying interest continued to be evident, but was insufficient to halt the decline. Business was quieter than on Wednesday, but turnover still totalled an active 5,520 lots. New York arabica was easier at midday. Some New York analysts attributed coffee's recent slide to talk that French trade house Sucra de Denree would have to liquidate much of its coffee position. On the LME three-month aluminium closed below the

1,320-a-tonne support level, which could trigger further selling today. News that Brazil's Albras smelter will be back to full production in July, after rebuilding output levels since a power cut in March damaged the plant, may have helped the early easing. The smelter has lost more than 30,000 tonnes from 1991 output. Three-month zinc closed below \$1,100 a tonne, which could also signal further losses today. Nickel regained some of this week's losses after fluctuating widely all day. Dealers said recent declines have left the market heavily oversold, so some sort of technical bounce was expected. Compiled from Reuters

London Markets

SPOT MARKETS

	Close	Previous	High/Low
Grade oil (per barrel FOB)			
Dubai	115.00-115.10	+1.25	
Strait Blend (dated)	115.75-115.80	+0.15	
Brent Blend (Jul)	115.25-115.30	+0.05	
W.T.I. (1 pm est)	120.00-120.10	+1.75	
Oil products			
NHE prompt delivery per tonne (CF)			
Heavy Gasoline	324.5-327	+1	
Gas Oil	318.5-321	+0.85	
Premium Fuel Oil	326-327		
Naphtha	320-321	+1 1/2	
Petroleum Argus Estimates			
Oil			
Coke (per ton) ex-works	365.25	-0.75	
Silver (per ton) ex-works	405.5	+0.5	
Platinum (per ton) ex-works	338.25	-0.45	
Palladium (per ton) ex-works	387.5	-1.25	
Aluminium (free market)	1750	-10	
Copper (US Producer)	104		
Lead (US Producer)	33		
Nickel (free market)	17.50		
Tin (Kuala Lumpur market)	15.25	-0.18	
Tin (New York)	280	+1	
Zinc (US Prime Western)	65		
Cattle (live weight)	115.47p	+0.10p	
Sheep (head weight)	112.17p	+0.08p	
Pigs (live weight)	85.19p	-0.8p	
London daily slaughter (raw)	220.5p	-0.5	
London daily slaughter (white)	220.0p	-0.5	
Taste and Lyle export contract	220.5p	+0.5	
Barley (English feed)	110p		
Wheat (US No. 3 yellow)	170.0	+0.5	
Wheat (US Dark Northern)	170.0		
Rubber (Juni)	62.00	-0.25	
Rubber (Juli)	62.50	-0.25	
Rubber (KL RSS No 1 Jun)	22.50		
Coconut oil (Philippines)	337.5p		
Palm Oil (Malaysian)	317.5	-5.0	
Cocoa (Philippines)	627.25		
Soybeans (US)	218.5	+2.0	
Cotton "A" Index	85.25	-0.70	
Wooltops (44 Super)	35.4p		

£ a tonne unless otherwise stated, p-percentage, c-cent, m-metric, t-tonne, q-quarter, J-July, A-Aug, M-March, Commission average, f-futures, p-price, w-week, a-average, b-bullion, m-Malaysian, c-cent, f-futures, p-price, w-week, a-average, b-bullion, m-Malaysian, c-cent.

Aug	171.80	170.50	171.40	170.00
Jul	172.70	170.50	171.40	170.00
Dec	174.40	171.50	171.50	
Mar	172.40	170.50	171.50	170.40
May	172.70	170.50	171.50	172.50
Oct	181.20		177.50	

White	Close	Previous	High/Low
Aug	286.5	278.5	285.0 278.5
Jul	286.5	278.5	285.0 278.5
Dec	297.0	283.5	293.5 281.5
Mar	288.5	244.5	286.0 248.5
May	286.5	278.5	285.0 278.5
Aug	287.0	278.5	286.0
Oct	291.0		287.0 242.5

Turnover	150,281 (458) lots of 50 tonnes.
Turnover	11,177 (47) lots of 50 tonnes.
Parity	White (Fzr per tonne): Aug 1862, Oct 1474.

CRUDE OIL - \$/BBL	\$/barrel		
Latest	Previous	High/Low	
Aug	19.25	19.13	19.37 19.10
Jul	19.25	19.13	19.40
Sep	18.61	19.01	19.07 19.57
Oct	19.08	19.76	19.66
Nov	19.56	19.86	19.85 19.78
Dec	19.76		19.83 19.78
Jan	19.76		19.83 19.78
IPE index	18.22	18.43	

CRUDE OIL - \$/BBL	\$/barrel		
Latest	Previous	High/Low	
Aug	19.00	178.25	188.25 178.00
Jul	178.75	178.75	184.75 178.75
Aug	177.25	178.25	177.75 178.50
Oct	178.25	178.00	178.50 178.00
Oct	180.25	180.25	180.25 180.25
Nov	184.00	183.00	183.75 182.75
Dec	184.00	183.00	183.75 182.75
Jan	182.75	181.75	180.00 180.00
Feb	179.25	178.75	178.00 178.00

Turnover	5447 (8694) lots of 100 tonnes
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FRUIT & VEGETABLES	\$/cwt
Cape Golden Delicious are super value today with bulk at 45-50¢ is (45-55¢), reports the	
FFWB, reports and Cape apples incoming from New Zealand are plant plentiful at 65-70¢ (55-70¢). Spanish strawberries are 55-70¢ a % in and grapefruit 15-25¢ each. Spanish broccoli at 40-50¢ and 35-40¢ per box pre-pack is abundant. Other goods	
vegetables include cauliflower at 40-45¢ each, asparagus at 21.50-1.60 lb and new English peas coming at 40-45¢ lb, with Jersey Potatoes at 45-55¢ a lb. English tomatoes at 50-55¢ a lb, cucumber at 50-55¢ each.	
Round and flat at 15-25¢ each and iceberg at 50-55¢ each are all plentiful.	

Close	Previous	
Jun	121.0	122.0
Jul	116.0	116.0
Aug	116.0	114.0
Sep	116.5	113.5
Oct	116.0	113.5

Turnover	105 (94) lots of 100 tonnes
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INDEX - London POKE	Close	Prev.
Index	130.07	140.14
Index	130.01	141.80
Index	140.20	142.00
Sep	140.50	141.00

LONDON STOCK EXCHANGE

Base rate hopes drive equities higher

THE tug-of-war between inflation and interest rate pressure within the UK came to the fore in the London stock market yesterday, when share prices responded optimistically to speculation that the UK authorities plan to cut domestic interest rates today.

Operations in the London money markets yesterday afternoon by the Bank of England appeared to indicate that the UK central bank might accept the half-point cut in UK base rates as a first step to the 1½-point reduction on which the London stock market is now fixating its hopes.

Yesterday's continued firmness in the sterling exchange rate index encouraged hopes that the widely expected cut in base rates cannot be too far away.

However, the equity market's response was muted and

Account Opening Dates		
First Dealings	May 20	Jun 3
Option Dealings	May 20	Jun 13
Last Dealings	May 21	Jun 14
Account Dates	May 20	Jun 14

share prices closed below the best levels of the day in spite of a firm opening to the new Wall Street session. Investment confidence was checked by the disclosure of a virtually unchanged UK trade balance for last month, which seemed to cast doubts over the recent improvement in Britain's balance of payments.

After a slow start, the FT-SE index gained nearly 19 points at the day's end, before shading off the top in late trading

when some profits were taken. The final reckoning showed the Footsie index at 2,482.8 with a net gain of 18.9.

The market advance lent heavily on gains in a few specific stocks. ICI moved up smartly, with Wellcome, the pharmaceuticals group, also strong on market hints that the problems over Hanson's interest in ICI could be solved by a link-up on the drugs side between ICI and Wellcome, the drugs group famed for its anti-cancer products. Such suggestions were first heard last week, immediately after Hanson acquired its stake in the blue chip UK chemical company.

Equity investors were again disturbed by fresh evidence of the effect on UK corporate trading of the recessionary pressures which lie behind the

urgent calls for further cuts in domestic base rates. Storehouse, which through its British Home Stores and Habitat subsidiaries reflects a major sector in UK retailing, commented that "the spring sale has not happened and the second half of last year has been pretty bloody - but we are out there fighting".

Seag trading volume remained disappointingly low at 423.1m shares against 459.4m in the previous session, which was marked by increased selling pressure, according to market traders. Analysts remained depressed by the overall corporate background and again finched in the face of suggestions that further rights issues could soon fall on a market already badly hurt by the weight of fund-raising moves since the turn of the year.

Most of the international blue chip stocks were firmer yesterday with the notable exception of the oil sector, which failed to follow the rest of the London market.

Market strategists appeared slow to accept yesterday's rally in equities, which still left the FT-SE index well short of the 2,500 mark regarded as the significant turning point for equities. Equity market chart strategists remained particularly cautious, with Mr Richard Lake of Hoare Govett, the London brokerage house, warning that the Footsie index may now be "working downwards" with a short-term correction to the 2,300 level likely. He believes that London is at risk to a Dow Jones Industrial Average poised to break downwards just as the Nikkei average has turned bearish.

FINANCIAL TIMES STOCK INDICES

	May 23	May 22	May 21	May 20	May 19	Year Ago	High	Low	Since Completion
Government Secs	84.47	84.40	84.37	84.18	84.04	78.38	85.88	82.17	127.4
Fixed Interest	95.45	95.40	95.41	95.36	95.01	87.20	94.84	90.59	105.4
Ordinary Shares	1945.4	1933.4	1942.5	1927.3	1926.2	1805.2	2014.5	1698.3	2014.5
Gold Mines	184.4	185.9	186.2	186.4	185.8	200.7	170.7	127.0	734.7
FT-SE 100 Share	2482.8	2465.8	2482.7	2468.8	2453.9	2277.1	2545.3	2054.8	2453.3
FT-SE Euroshare 200	1168.00	1165.21	1162.88	1154.43	1151.02		1178.38	1038.62	1178.38

GILT EDGED ACTIVITY		
Indices		
Gilt Edged	91.2	93.7
Gilt Edged	93.4	94.7
5-Day average		
Gilt Edged	91.2	93.7
Gilt Edged	93.4	94.7

Spoiling tactics denied

THE speculation surrounding ICI, triggered by last week's stock market raid by Hanson, which accumulated a 2.82 per cent stake in the chemicals giant, continued yesterday as the market reacted to suggestions of a link-up between ICI and Wellcome in a spoiling move against any Hanson bid.

Shrugging aside press suggestions that political opposition to any predatory move against ICI was growing, ICI shares progressed to close 19p higher at 124.6p. Turnover was a respectable 2.7m shares, with speculators said to be betting on imminent further developments in the situation.

The disclosure of a link-up between ICI and Wellcome was reported as being denied by the latter. Hanson settled 1½ p higher at 212p on 6.4m.

Wellcome shares, which had been strongly boosted by a buy recommendation from US brokerage house Lehman Bros, closed 9p higher at 60.9p on volume of 1m.

Storehouse active

A two-way pull developed in Storehouse, the retailing conglomerate, after it reported annual profits down by more than a half at 25.2m. The figures were depressed by an exceptional item of 24.4m, but shares initially dipped on the results. However, before exceptional items, profits were close to expectations and this encouraged some buying at the lower levels, leaving the stock unchanged at 101p on turnover of 5.3m.

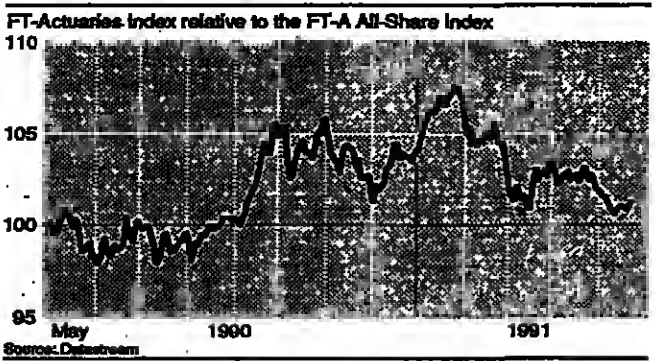
Opinion is divided on Storehouse, with some specialists not expecting a strong recovery in the depressed and increasingly competitive retail market. Others say it would only take a small percentage increase in sales to feed through into higher profits. Profits of 22m prior to exceptional items compare with sales of 21.5m, making it one of the most operationally geared retailers.

Lloyds Bank rises

A largely lacklustre showing by the bank was reversed in mid-afternoon when Lloyds Bank spearheaded a strong and sustained upturn in the sector.

Driving Lloyds higher, as well as the sector, was a story that a leading investment bank

Food Manufacturing



In spite of the second worst recession since World War II, food manufacturing has not provided much of a safe haven for investors. As well as being recession-proof than previously thought, the sector has suffered from lack of any major bid activity. In the last year, Sir James Goldsmith sold his 28.5 per cent stake in Rank Hovis McDougall; General Cinema disposed of its 17 per cent interest in Cadbury Schweppes; and Mr Larry Goodman sold his 5 per cent holding in Unigate. Furthermore, economic recovery may boost cyclical stocks before food manufacturers, analysts believe.

had adopted a highly positive stance on Lloyds after a City lunch, increasing its profits and dividend forecasts for the bank.

Dealers said Lloyds was set on a policy of real growth in its dividend and that the bad debts situation was not as severe as had been thought. Lloyds has been badly affected by the problems over Mr Larry Goodman's business, as well as Polly Pock and International Leisure. It is thought to be a lender to Brent Walker.

There were suggestions that Lloyds had controlled costs and that there was the possibility of it writing back some of its LDC (developed country) debt provisions.

Lloyds Bank shares ended a net 1½ p higher at 342p after heavy turnover of 3.3m.

BT pleases

The market gave an immediate and positive response to the preliminary figures from BT (formerly British Telecom), which revealed profits - up 14 per cent for the year - and the dividend - increased by almost 13 per cent for the 12 months - at the top end of

NEW HIGHS AND LOWS FOR 1991

NEW HIGHS		TRENDS	
BRITISH FUND (1) Trust, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 2679, 2680, 2681, 2682, 2683, 2684, 2685, 2686, 2687, 2688, 2689, 2690, 2691, 2692, 2693, 2694, 2695, 2696, 2697, 2698, 2699, 2700, 2701, 2702, 2703, 2704, 2705, 2706, 2707, 2708, 2709, 2710, 2711, 2712, 2713, 2714, 2715, 2716, 2717, 2718, 2719, 2720, 2721, 2722, 2723, 2724, 2725, 2726, 2727, 2728, 2729, 2730, 2731, 2732, 2733, 2734, 2735, 2736, 2737, 2738, 2739, 2740, 2741, 2742, 2743, 2744, 2745, 2746, 2747, 2748, 2749, 2750, 2751, 2752, 2753, 2754, 2755, 2756, 2757, 2758, 2759, 2760, 2761, 2762, 2763, 2764, 2765, 2766, 2767, 2768, 2769, 2770, 2771, 2772, 2773, 2774, 2775, 2776, 2777, 2778, 2779, 2780, 2781, 2782, 2783, 2784, 2785, 2786, 2787, 2788, 2789, 2790, 2791, 2792, 2793, 2794, 2795, 2796, 2797, 2798, 2799, 2800, 2801, 2802, 2803, 2804, 2805, 2806, 2807, 2808, 2809, 2810, 2811, 2812, 2813, 2814, 2815, 2816, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2824, 2825, 2826, 2827, 2828, 2829, 2830, 2831, 2832, 2833, 2834, 2835, 2836, 2837, 2838, 2839, 2840, 2841, 2842, 2843, 2844, 2845, 2846, 2847, 2848, 2849, 2850, 2851, 2852, 2853, 2854, 2855, 2856, 2857, 2858, 2859, 2860, 2861, 2862, 2863, 2864, 2865, 2866, 2867, 2868, 2869, 2870, 2871, 2872, 2873, 2874, 2875, 2876, 2877, 2878, 2879, 2880, 2881, 2882, 2883, 2884, 2885, 2886, 2887, 2888, 2889, 2890, 2891, 2892, 2893, 2894, 2895, 2896, 2897, 2898, 2899, 2900, 2901, 2902, 2903, 2904, 2905, 2906, 2907, 2908, 2909, 2910, 2911, 2912, 2913, 2914, 2915, 2916, 2917, 2918, 2919, 2920, 2921, 2922, 2923, 2924, 2925, 2926, 2927, 2928, 2929, 2930, 2931, 2932, 2933, 2934, 2935, 2936, 2937, 2938, 2939, 2940, 2941, 2942, 2943, 2944, 2945, 2946, 2947, 2948, 2949, 2950, 2951, 2952, 2953, 2954, 2955, 2956, 2957, 2958, 2959, 2960, 2961, 2962, 2963, 2964, 2965, 2966, 2967, 2968, 2969, 2970, 2971, 2972, 2973, 2974, 2975, 2976, 2977, 2978, 2979, 2980, 2981, 2982, 2983, 2984, 2985, 2986, 2987, 2988, 2989, 2990, 2991, 2992, 2993, 2994, 2995, 2996, 2997, 2998, 2999, 3000, 3001, 3002, 3003, 3004, 3005, 3006, 3007, 3008, 3009, 3010, 3011, 3012, 3013, 3014, 3015, 3016, 3017, 3018, 3019, 3020, 3021, 3022, 3023, 3024, 3025, 3026, 3027, 3028, 3029, 3030, 3031, 3032, 3033, 3034, 3035, 3036, 3037, 3038, 3039, 3040, 3041, 3042, 3043, 3044, 3045, 3046, 3047, 3048, 3049, 3050, 3051, 3052, 3053, 3054, 3055, 3056, 3057, 3058, 3059, 3060, 3061, 3062, 3063, 3064, 3065, 3066, 3067, 3068, 3069, 3070, 3071, 3072, 3073, 3074, 3075, 3076, 3077, 3078, 3079, 3080, 3081, 3082, 3083, 3084, 3085, 3086, 3087, 3088, 3089, 3090, 3091, 3092, 3093, 3094, 3095, 3096, 3097, 3098, 3099, 3100, 3101, 3102, 3103, 3104, 3105, 3106, 3107, 3108, 3109, 3110, 3111, 3112, 3113, 3114, 3115, 3116, 3117, 3118, 3119, 3120, 3121, 3122, 3123, 3124, 3125, 3126, 3127, 3128, 3129, 3130, 3131, 3132, 3133, 3134, 3135, 3136, 3137, 3138, 3139, 3140, 3141, 3142, 3143, 3144, 3145, 3146, 3147, 3148, 3149, 3150, 3151, 3152, 3153, 3154, 3155, 3156, 3157, 3158, 3159, 3160, 3161, 3162, 3163, 3164, 3165, 3166, 3167, 3168, 3169, 3170, 3171, 3172, 3173, 3174, 3175, 3176, 3177, 3178, 3179, 3180, 3181, 3182, 3183, 3184, 3185, 3186, 3187, 3188, 3189, 3190, 3191, 3192, 3193, 3194, 3195, 3196, 3197, 3198, 3199, 3200, 3201, 3202, 3203, 3204, 3205, 3206, 3207, 3208, 3209, 3210, 3211, 3212, 3213, 3214, 3215, 3216, 3217, 3218, 3219, 3220, 3221, 3222, 3223, 3224, 3225, 3226, 3227, 3228, 3229, 3230, 3231, 3232, 3233, 3234, 3235, 3236, 3237, 3238, 3239, 3240, 3241, 3242, 3243, 3244, 3245, 3246, 3247, 3248, 3249, 3250, 3251, 3252, 3253, 3254, 3255, 3256, 3257, 3258, 3259, 3260, 3261, 3262, 3263, 3264, 3265, 3266, 3267, 3268, 3269, 3270, 3271, 3272, 3273, 3274, 3275, 3276, 3277, 3278, 3279, 3280, 3281, 3282, 3283, 3284, 3285, 3286, 3287, 3288, 3289, 3290, 3291, 3292, 3293, 3294, 3295, 3296, 3297, 3298, 3299, 3300, 3301, 3302, 3303, 3304, 3305, 3306, 3307, 3308, 3309, 3310, 3311, 3312, 3313, 3314, 3315, 3316, 3317, 3318, 3319, 3320, 3321, 3322, 3323, 3324, 3325, 3326, 3327, 3328, 3329, 3330, 3331, 3332, 3333, 3334, 3335, 3336, 3337, 3338, 3339, 3340, 3341, 3342, 3343, 3344, 3345, 3346, 3347, 3348, 3349, 3350, 3351, 3352, 3353, 3354, 3355, 3356, 3357, 3358, 3359, 3360, 3361, 3362, 3363, 3364, 3365, 3366, 3367, 3368, 3369, 3370, 3371, 3372, 3373, 3374, 3375, 3376, 3377, 3378, 3379, 3380, 3381, 3382, 3383, 3384, 3385, 3386, 3387, 3388, 3389, 3390, 3391, 3392, 3393, 3394, 3395, 3396, 3397, 3398, 3399, 3400, 3401, 3402, 3403, 3404, 3405, 3406, 3407, 3408, 3409, 3410, 3411, 3412, 34			

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1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 26

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Continued on next page

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on next page

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NASDAQ NATIONAL MARKET

3:00 pm prices May 23

Stock	Dr.	Pr.	Stk	100s	High	Low	Last	Chng	Stock	Dr.	Pr.	Stk	100s	High	Low	Last	Chng	Stock	Dr.	Pr.	Stk	100s	High	Low	Last	Chng	
Aluminum	0.13	20	212	94	32	33	33	++	Deere	0.02	8	9	243	9	243	9	243	3	Deere	0.02	8	9	243	9	243	9	243
ACC Corp	0.13	20	212	94	32	33	33	++	Dow	0.02	8	9	243	9	243	9	243	3	Dow	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
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Admiral	0.13	20	212	94	32	33	33	++	Eastman	0.02	8	9	243	9	243	9	243	3	Eastman	0.02	8	9	243	9	243	9	243
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3:00 pm prices May 29

[illegible]

AUTOMATIC IDENTIFICATION

The FT. proposes to publish this survey on **June 17 1991.** The Financial Times unsurpassed reputation for producing topical authoritative editorial, ensures that this survey will be an essential point of reference for all businessmen interested in fast and accurate automatic data capture. If you want to reach this important audience, call Jessica Perry on 071 873 4611 or fax 071

FT SURVEYS

AMERICA

Economic figures prove mixed blessing for Dow

Wall Street

THE STOCK MARKET remained stuck in a narrow trading range yesterday morning, but then share prices began to fall in the wake of some ambiguous economic news, writes Patrick Raftery in New York.

At 1.30 pm the Dow Jones Industrial Average was down 21.02 at 2,889.31. The more broadly based Standard & Poor's 500 was also a touch lower, down 1.95 at 375.13 at 1 pm, while the Nasdaq composite of over-the-counter stocks held on to its gains and was up 1.73 at 499.02. Turnover on the New York SE was 109m shares, and declining issues outpaced advancing issues by 705 to 690.

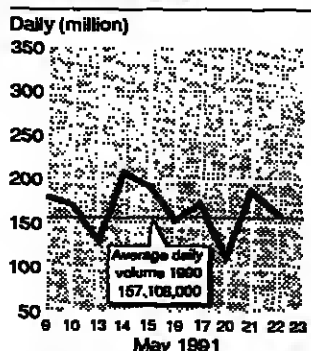
The day's economic figures were a mixed blessing for the market. A 2.9 per cent increase in April durable goods orders was seen as mildly encouraging, especially as it included signs of strength in the manufacturing sector. However, non-defence orders fell by 10.3 per cent during the month, an indication that the recession is by no means over.

With such conflicting evidence on the state of the economy, analysts said that investors were likely to keep their heads down for the immediate future.

Among individual issues, UAL shares rose \$2.4 to \$145.4

after the airline said that system-wide capacity - the number of aircraft, hubs and routes it runs - would reach an all-time high this August. The stock was further boosted by an upgrade from Bear Stearns, the broking house, which raised its rating from a "buy" to a "strong buy".

NYSE volume



Other stocks in the airline sector were also higher on a feeling that the worst of the slump for domestic carriers is over, with US Air up \$4 at \$61.4, Delta \$4 at \$70.7, and AMX, parent company of American Airlines, \$3 at \$61.7.

Orion Pictures, which declined earlier in the week on news of fourth quarter losses and a debt restructuring pro-

gramme, plummeted \$1.4 to \$4.4 yesterday on reports that the film studio's finances are in worse shape than originally disclosed.

Digital Equipment, which has won a Navy contract worth up to \$140m, edged \$1 higher to \$83.7.

Centocor climbed \$1.4 to \$68 in brisk trading after the company's Centoxin drug was approved by authorities in the UK and Germany, and the pharmaceutical analyst at Kidder Peabody reiterated his buy recommendation.

Canada

TORONTO stocks fell from their session highs by midday. The composite index was up 0.9 at 3,448.9. Declines led advances by 205 to 191 on volume of 12.9m shares.

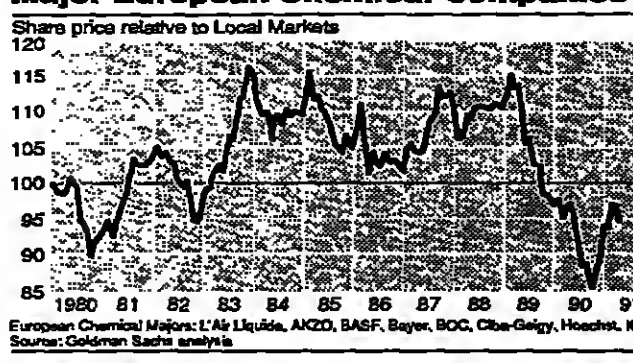
Laidlaw bounced up C\$1 after sliding C\$4 on Wednesday on continuing reports of contamination problems at the company's Mercer, Quebec, hazardous waste site. Laidlaw said late on Wednesday that clean-up costs for hurried wastes would not be material.

Deprenyl Research, the drug company, continued to climb, rising C\$4 to a 12-month high of C\$20. Xerox Canada class B shares gained C\$5 to C\$22 after Xerox Corp said it had signed a letter of intent to sell the Canadian unit to General Accident Assurance of Canada.

Recovery in Europe's chemical sector fades

Poor first-quarter results and slack demand are to blame, writes Antonia Sharpe

Major European Chemical Companies



prices to cover the initially sharp increase in the cost of oil and naphtha that resulted from the Gulf crisis.

The sector's recovery in the first four months of this year was helped by the rally in the dollar, the quick finish to the Gulf war and the consequent decline in oil prices, and expectations that the US recession was nearing an end. By April 25, BASF, which has the biggest exposure to bulk chem-

icals among the German chemical majors, had outpaced the DAX index by 8.3 per cent, while DSM, a purer petrochemical play, had risen 15.1 per cent against the Dutch CBS general index by April 5.

Both shares, along with the rest of the sector, have since retreated as the chemical companies have announced poor results for the first quarter.

It is apparent that the Gulf crisis created a false market

for petrochemical and plastics products, and that underlying demand is slack. Falling oil and naphtha prices have led to a reduction in inventory levels, price erosion and declining profit margins. The market's fears have been confirmed by Mr Jürgen Strüder, the chairman of BASF, who warned recently that a return to normal order levels for plastics was not anticipated before the end of this year.

According to Mr Tony Cox of Kleinwort Benson, the contract prices of major products have fallen by up to 42 per cent since the start of 1991, with a sharp decline occurring in recent weeks. He believes that bulk chemical prices and margins will continue to fall, with the pressure easing at the start of 1992 at the earliest as the balance between supply and demand is re-established.

Mr Charles Brown at Goldman Sachs is concerned that several chemical shares seem to have recovered too far, too soon. He fears that while there could be a recovery in the US and UK economies, demand

EUROPE

International bargain hunters spotted in Milan

THERE WAS a suggestion that international bargain hunters were on the prowl in Europe again yesterday, and that Italian stocks were in their sights.

MILAN rose on demand for Fiat, which inspired foreign buying of other blue chips. The Comit index added another 8.06 to 3,814.1 in volume estimated at higher than Wednesday's 14,400.

FT-SE Eurotrack 100 - May 23

Open	10 am	11 am	Noon	1 pm	2 pm	3 pm	Close
1129.49	1129.14	1128.43	N/A	1130.81	1130.82	1132.68	1132.62
Day's High 1133.04				Day's Low 1127.68			
May 22	May 21	May 20	May 17	May 16			
1131.74	1123.75	1120.04	1118.81	1112.66			

Base value 100 (24/7/90)

1 Indicative

troubled agricultural co-operative, Federconsorzi, would be forced to sell its 13 per cent BNA stake.

FRANKFURT saw the FAZ index 1.95 lower at 693.23 in mid-session, but registered another 1991 high for the DAX, which closed 5.02 up at 1,632.71. Volume eased from DM11.4bn to DM10.8bn.

Dresner's Mr Ruediger Eich said that the bank had recommended the market three or four weeks ago on the prospect of economic improvement in the second half of this year. This week's sudden gains, he said, might have been triggered by interest rate hopes.

and President Bush's optimism about the US economy which is good news for German export prospects in 1992.

The renegotiation of Soviet homebuilding contracts helped construction firms again, with Bilfinger & Berger up DM25 at DM1,560, in carmakers, hopes that Daimler would ingest its Mercedes associate were considered an old story; it was a switch based on valuation criteria, said Mr Eich, which left Daimler flat at DM77.50 and Mercedes another DM9 better at DM586.50.

PARIS ended near its day's low on the last day of the

monthly account, following a fall in bond prices. The CAC 40 index lost 17.42 to 1,813.71 as turnover rose to about FF2.8bn from FF2.15bn.

The day's most active stock was LVMH, the luxury goods group, which closed FF7 higher at FF13,561 on volume of 32,460 shares worth about FF207m. In earlier trading the stock reached a 12-month high of FF14,018. The company denied rumours that it was planning a rights issue.

Havas, the media group, lost FF12 to FF198 after forecasting unchanged profits for 1991. Bon Marché, the retailer, was suspended at FF184; after the market closed it announced a reorganisation involving its subsidiary, Conforama, which was suspended at FF184.

HELSINKI rose 1.9 per cent on speculation that the market is to be linked to the ECU. The Helsinki index gained 13.9 to 1,092.2 in turnover up from FM18.2m to FM22.7m, of which FM9.2m was free shares.

BRUSSELS rose in busy deal-

ings on the first day of the new trading account. The Bel20 index, however, finished 4.45 lower at 1,167.82 after several shares went ex dividend.

Solvay, the chemical company, continued to benefit from the news of its joint marketing plans with Upjohn of the US, rising another FF7.90 to FF13,300. Solvay also announced a joint venture with Kyowa Hakko Kogyo, of Japan.

MADRID firmed in response to a fall in one-year Treasury bill rates. The general index added 0.94 to 286.53 in turnover of about Ptas18bn after Wednesday's Ptas17bn.

The banking sector was strong, with Santander up Ptas30 at Ptas5,650 and BBV rising Ptas5 to Ptas4,425 in active trading of 838,784 shares.

ZURICH inched up to a high for the year, the SBC general index closing 1.3 up at 625.9 in volume similar to Wednesday's SFR4.8m. Smaller bearers, split into five, rose to SFR2,490 from an adjusted SFR2,420.

ASIA PACIFIC

Bombay slips on widow's refusal

SHARE PRICES gyrated on the Bombay Stock Exchange (BSE) yesterday, after the assassination on Tuesday of Mr Rajiv Gandhi, the former prime minister, writes R.C. Murthy in Bombay.

The news that Mrs Sonia Gandhi, Rajiv's widow, had refused to lead the Congress party came at the close of trading. The 30-share index lost an early gain to end 5.65 down at 1,314.89, and share prices fell further after hours. The market will be shut today.

Trading had begun hesitantly after the market's closure on Wednesday, but statements by the International

Monetary Fund and the World Bank, assuring continued support for India's economic restructuring, gave shares an early boost. The index, which had opened 25 points lower, advanced to a five-week high of 1,321.82 by mid-session, before receding at the close.

Interest focused on five stocks, including ACC and Reliance Industries, whose chief executive is linked to the Congress party. Yesterday evening the BSE listed cash margins to 20 per cent from 15 on sales and purchases, to moderate the swings. The other three stocks with raised margins were Tata Steel,

Gujarat Ambuja and Grasim. Earlier in the week, the market had been enthused by Monday's elections, the first of the three phases of the polls. The Congress party was expected to win nearly half of the Lok Sabha (lower house) seats, enabling it to form a government with the support of splinter groups. The other two phases, due yesterday and on Sunday, have been postponed until June 12 and 15.

Share values forged ahead on Tuesday, with the index gaining 35 points to 1,320, only to fall back in keen trading on Wednesday following the assassination.

Arbitrage and broking campaign lift Nikkei

Tokyo

ARBITRAGE buying and efforts by Japanese brokerages helped the Nikkei average to rise yesterday for the first time in four days, writes Emiko Terazono in Tokyo.

The average closed 244.99 higher at 25,643.65, after a day's low of 25,350.83 and a high of 25,721.27. Arbitrage unwinding depressed the Nikkei in the morning, but strength in the futures markets triggered buying later in the day.

Volume increased from 260m to 370m shares, the heaviest level since May 1. Advances led declines by 598 to 333, with 175 issues unchanged. The Toxix index gained 15.30 to 1,948.87, and in London trading the ISE/Nikkei 50 index firmed 1.34 to 1,448.47.

Cash positions on June arbitrage contracts at May 17 rose to a record of ¥1,170bn. Traders said that, while there was concern that arbitrage unwinding before the expiry of the June futures contract could depress the cash market, arbitrageurs had been rolling over into September contracts.

A sales campaign by the Japanese brokerages helped to lift volume, but traders said that once it was over, turnover would falter again. Hitachi Zosen climbed ¥30 to ¥765 and Nissin Steel ¥40 to ¥781 on brokers' recommendations.

Cable and wire companies rose on strong earnings forecasts, with Fujikura advancing ¥30 to ¥1,100, Furukawa ¥30 to ¥839 and Mitsubishi Cable ¥27 to ¥1,030. Sharp falls in copper prices are expected to improve their profit margins.

Sony, which fell on Wednesday on earnings rumours, rallied ¥260 to ¥5,960. Its pre-tax profits, announced after the market had closed, showed a 16 per cent rise. Akai Electric put up ¥50 to ¥1,150 on hopes of an 85 per cent jump in pre-tax profits and rumours of speculative interest.

Moriwaga Milk Industry was actively traded, rising ¥22 to ¥751. Rumours that it had developed an AIDS drug attracted individual investors.

In Osaka, the OSE average added 28.82 to 25,149.37 on volume of 35m shares, up from 20m. New Japan Chemical moved ahead ¥60 to ¥1,230 on earnings news.

Sanyo Coca-Cola rose ¥70 to ¥2,540 on plans to redevelop

plant sites in western Japan as shopping centres, and after its tie-up with a restaurant chain.

Roundup

SENTIMENT was mixed in the Pacific Basin with Hong Kong and Kuala Lumpur, in particular, showing a tendency to move hard and fast.

HONG KONG plunged and then rallied after the failure of the airport talks. The Hang Seng index recovered more than half of a 105-point morning drop to close 47.83 or 1.2 per cent off at 3,778.79, making a three-day loss of 3.5 per cent.

Turnover expanded from HK\$1.32bn to HK\$1.57bn. Properties took heavy losses, followed by utilities and the commercial and industrial sector.

KUALA LUMPUR accelerated Wednesday's gains, with the KLCSE composite index rising 18.81 or 3.2 per cent to 611.57, its largest single-day gain since October.

Speculation that Malaysia's national retirement fund might soon be allowed to increase its equity holdings prompted further index-linked buying, and traders saw a continued inflow of foreign funds.

Telekom Malaysia, the big-

gest issue on the exchange, jumped M\$1.05 or 11 per cent to M\$11, principally because of a brokerage report suggesting that the telephone monopoly may not pay taxes in 1992.

SINGAPORE'S Straits Times Industrial index, weighted towards blue chip Singapore companies, rose 7.41 to 1,532.44. As in Malaysia, the increase in Singapore's weighting in the FT-Actuaries Pacific Basin (ex Japan) index generated speculation that equity funds linked to the index would raise their holdings in the two countries.

BANGKOK was another winner, the SET index gaining 8.65 to 800.73. AUSTRALIA'S All Ordinaries index shed 9.4 to 1,432.00 on a drop in the Australian dollar and NEW ZEALAND ended a six-day rally with the Barclays index 14.78 lower at 1,540.26.

SOUTH AFRICA

INDUSTRIAL stocks held their gains in Johannesburg yesterday, as gold shares slipped on profit-taking and a fall in the halion price. The industrial index hit another record of 3,584, up 2, while the all-gold index eased 17 to 1,183.

FT-ACTUARIES WORLD INDICES														
Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries														
NATIONAL AND REGIONAL MARKETS														
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	Local Currency Index	Local % chg on day	Gross Div. Yield	Year ago (approx)
WEDNESDAY MAY 22 1981														
Australia (72)	144.87	+0.8	124.41	128.38	128.08	+0.4	5.35	144.45	123.33	125.48	123.64	+0.4	5.35	127.74
Austria (18)	136.24	-0.2	170.23	172.53	172.53	-0.8	4.49	136.64	172.53	172.53	172.53	-0.8	4.49	167.00
Belgium (20)	136.65	-0.3	117.52	117.37	117.37	+0.4	4.36	137.32	117.24	117.24	117.24	+0.4	4.36	121.73
Denmark (117)	136.93	+0.0	117.58	118.44	122.54	+0.0	3.51	136.94	118.51	118.51	121.84	+0.0	3.51	126.49
Germany (30)	242.18	+0.2	207.57	211.26	210.75	+0.3	5.14	241.77	206.42	206.99	215.13	+0.3	5.14	256.92
Finland (21)	113.08	-0.4	97.05	96.50	96.50	-0.3	2.54	113.54	96.50	96.50	96.50	-0.3	2.54	101.85
France (111)	136.90	-0.8	117.30	118.15	122.24	-0.2	3.41	137.70	117.57	117.59	122.45	-0.2	3.41	121.85
Germany (88)	111.85	+1.0	98.04	97.58	100.10	+0.6	2.23	110.74	94.55	96.20	98.54	+0.6	2.23	102.43
Hong Kong (47)	138.00	-0.2	138.98	137.83	141.82	-0.2	3.33	138.28	138.13	137.47	140.84	-0.2	3.33	129.55
Ireland (17)	151.84	-0.9	130.39	132.45	136.90	-0.3	4.08	153.20	130.80	130.80	135.05	-0.3	4.08	132.86
Italy (81)	76.15	+0.1	65.39	66.42	68.15	+0.7	3.28	76.04	64.39	65.04	67.82	+0.7	3.28	72.05
Japan (42)	117.11	-0.7	117.11	118.08	122.07	-0.3	1.37	117.33	118.07	118.07	122.24	-0.3	1.37	105.32
Malaysia (32)	232.36	+1.8	199.53	202.68	207.96	+2.6	3.06	228.31	194.90	194.90	203.14	+2.6	3.06	233.30
Mexico (12)	994.22	+0.0	853.78	867.28	889.63	+0.0	0.41	994.18	848.82	848.82	884.84	+0.0	0.41	955.27
Netherlands (40)	136.98	-0.5	118.09	120.57	124.12	-0.5	4.42	135.08	118.78	118.78	122.53	-0.5	4.42	143.73
New Zealand (14)	53.81	+0.8	48.29	47.03	48.25	+0.8	7.31	53.48	45.64	45.64	47.57	+0.8	7.31	48.25
Norway (30)	201.04	-1.0	172.54	173.37	179.94	-0.8	1.85	203.08	173.38	173.38	180.70	-0.8	1.85	223.24
Singapore (25)	203.08	+0.2	174.78	177.18	185.74	+0.2	2.02	202.78	173.13	173.13	180.43	+0.2	2.02	195.49
South Africa (80)	216.82	+1.4	186.25	189.18	194.11	+1.2	1.68	218.89	186.81	186.81	193.81	+1.2	1.68	171.00
Spain (41)	181.09	-0.9	138.33	140.52	144.17	-0.2	4.32	189.48	138.72	138.72	144.12	-0.2	4.32	131.51
Sweden (27)	182.98	-0.9	158.77	159.29	163.87	-0.2	2.82	184.27	157.33	160.05	163.97	-0.2	2.82	160.04
Switzerland (58)	94.31	+0.2	80.38	82.27	84.41	+0.2	2.85	94.14	80.37	81.71	83.78	+0.2	2.85	101.81
United Kingdom (233)	170.70	-1.2	148.59	148.89	152.77	-0.8	4.61	172.78	147.51	150.95	162.71	-0.8	4.61	156.82
USA (823)	152.38	+0.3	130.84	132.81	138.37	+0.3	3.22	151.97	129.75	131.99	135.23	+0.3	3.22	145.26
WEDNESDAY MAY 22 1981														
Europe (823)	136.68	-0.5	118.09	120.58	124.13	-0.5	3.88	138.43	118.09	121.70	125.17	-0.5	3.88	145.78
Nordic (102)	182.67	-0.5	158.08	157.81	161.91	-0.1	2.05	181.43	154.80	157.58	161.44	-0.1	2.05	201.58
Pacific Basin (843)	137.12	-0.8	117.76	119.61	122.72	-0.2	1.08	138.00	117.82	117.82	120.36	-0.2	1.08	151.54
Asia-Pacific (1573)	136.10	-0.6	116.59	120.46	123.59	-0.1	2.23	136.93	116.62	116.62	123.81	-0.1	2.23	149.80
North America (840)	151.23	+0.2	129.65	131.28	135.48	+0.2	2.23	150.36	129.68	131.12	134.54	+0.2	2.23	144.80
Europe Ex UK (84)	151.13	+0.0	102.30	104.34	106.26	+0.2	3.11	116.17	101.75	101.75	106.06	+0.2	3.11	106.85
Pacific Ex Japan (191)	144.75	+0.2	124.30	126.29	129.57	+0.2	4.71	144.46	123.34	123.49	126.58	+0.2	4.71	111.40
World Ex US (1787)	138.34	-0.1	116.65	121.58	124.71	-0.1	2.51	140.15	116.62	117.20	124.67	-0.1	2.51	148.74
World Ex UK (1827)	138.96	-0.1	122.19	122.10	125.29	+0.1	2.35	140.15	116.62	117.20	124.67	+0.1	2.35	148.74
World Ex So. Afr. (2230)	42.23	+0.2	124.14	124.05	127.31	+0.0	2.61	142.62	121.78	123.98	126.91	+0.1	2.61	122.92
World Ex Japan (1038)	147.36	+0.0	126.54	126.61	131.91	+0.0	3.63	147.42	126.86	128.05	131.18	+0.0	3.63	145.20
WEDNESDAY MAY 22 1981														
World Ex World Index (2290)	142.98	-0.3	122.52	124.47	127.71	-0.1	2.62	143.05	122.13	124.25	127.29	-0.1	2.62	145.01
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